

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: City of Garden City, Michigan	County Wayne
Audit Date June 30, 2004	Opinion Date October 29, 2004	Date Accountant Report Submitted To State: December 30, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC			
Street Address 27400 Northwestern Highway	City Southfield	State MI	ZIP 48034
Accountant Signature 			

City of Garden City, Michigan

Financial Report with Supplemental Information June 30, 2004

City of Garden City, Michigan

Contents

Report Letter	1-2
Management's Discussion and Analysis	3-10
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Assets	11
Statement of Activities	12-13
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	14
Statement of Revenue, Expenditures, and Changes in Fund Balances	15
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	16
Proprietary Funds:	
Statement of Net Assets	17
Statement of Revenue, Expenses, and Changes in Net Assets	18
Statement of Cash Flows	19
Fiduciary Funds:	
Statement of Net Assets	20
Statement of Changes in Net Assets	21
Notes to Financial Statements	22-45
Required Supplemental Information	
Budgetary Comparison Schedule - General Fund	46-47
Budgetary Comparison Schedule - Major Streets Fund	48
Pension System Schedule of Funding Progress	49
Note to Required Supplemental Information	50-51
Other Supplemental Information	
Nonmajor Governmental Funds:	
Combining Balance Sheet	52-56
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances	57-62

City of Garden City, Michigan

Contents (Continued)

Other Supplemental Information (Continued)

Downtown Development Authority - Modified Accrual Basis:	
Balance Sheet	63
Statement of Revenue, Expenditures, and Changes in Fund Balance	64
Schedule of Indebtedness	65-72



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Independent Auditor's Report

To the City Council
City of Garden City, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Garden City, Michigan (the "City") as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Garden City, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As disclosed in Note 13 to the financial statements, the Downtown Development Authority and the City have excluded from long-term debt in the accompanying statement of net assets, the potential liability to a contractor. In our opinion, the potential liability should be accrued in order to conform with accounting principles generally accepted in the United States of America. If this liability, including associated interest, was accrued, long-term debt would increase by approximately \$15,032,000 and net assets would decrease by approximately \$15,032,000 as of June 30, 2004. Additionally, the change in net assets would decrease by approximately \$15,032,000 for the year ended June 30, 2004.

In our opinion, except for the effects of not accruing the potential long-term debt discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Garden City, Michigan as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

A member of



A worldwide association of independent accounting firms

To the City Council
City of Garden City, Michigan

The management's discussion and analysis, pension system schedule of funding progress and employer contributions, and the budgetary comparison schedule as identified in the table of contents are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Garden City, Michigan's basic financial statements. The accompanying other supplemental information is presented for the purpose of additional analysis and is not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

During the year ended June 30, 2004, the City experienced an emergency situation with respect to the City's financial and accounting operations. This emergency situation emerged due to the departure of the City's deputy treasurer and the incapacitation of the City's clerk/treasurer. The City exhausted its alternatives for other providers of these services and due to no other viable alternatives, the City requested our services. We provided temporary accounting services during this emergency situation. All temporary services provided complied with the requirements set forth in the *Government Auditing Standards*.

Plante & Moran, PLLC

October 29, 2004, except for Note 13, as to which
the date is December 28, 2004

City of Garden City, Michigan

Management's Discussion and Analysis

Our discussion and analysis of the City of Garden City, Michigan's (the "City") financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2004. Please read it in conjunction with the City's financial statements.

Financial Highlights

As discussed in further detail in this management's discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2004:

- State-shared revenue, our second largest revenue source, was reduced by the State of Michigan by an additional \$381,607 this year. Total cuts by the State since 2001 are approximately \$672,707. The City reacted with careful deficit reduction plans for the last three years. The plan included the reduction of staffing levels, decreased planned capital expenditures, and consolidation of services.
- Total net assets related to the City's governmental activities decreased by \$3,025,351.
- Some labor contracts remain pending. The contract for the Command Officers Association of Michigan and the Police Officers Association of Michigan were settled after the close of the fiscal year. It is expected that the remaining contract settlements are imminent.
- The City continued its commitment to funding postretirement health care by maintaining its Restricted Fund, in accordance with PA 149.
- The City, for the first time in over a decade, made a contribution to the pension fund so that it remains over funded into the future.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The financial statements for each fund present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

City of Garden City, Michigan

Management's Discussion and Analysis (Continued)

Government-wide Statements

The government-wide statements provide information about the City as a whole, using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the City's assets and liabilities. Net assets, the difference between the City's assets and liabilities, are one way to measure the City's overall financial health. The statement of activities reflects all of the current year's revenues and expenses, regardless of when cash is actually received or paid.

The government-wide financial statements of the City are divided into three categories:

- Governmental activities - Most of the City's basic services are included here, such as police, fire, public works, recreation, and general administration. Property taxes, state-shared revenues, charges for services, and grants provide the majority of the funding.
- Business-type activities - The City charges user fees to customers to cover costs of providing water and sewer services.
- Component unit activities - The City of Garden City Downtown Development Authority was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the district. Property taxes provide the majority of funding. It is reported in a separate column to emphasize that it is legally separate from the City.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds - not the City as a whole. Funds are accounting tools that the City uses to keep track of specific sources of funding or monitor spending. Some funds are required to be separately maintained by State law. The City Council establishes other funds to control and manage money for particular purposes.

The City has three kinds of funds:

- Governmental funds - Most of the City's basic services are included in governmental funds, which focus on how cash and other financial assets that can be converted to cash, flow in and out, and the balance left at year end that is available for future spending. The governmental fund statements provide a detailed short-term view that highlights whether there are more or fewer financial resources available in the near future to finance the City's programs. Because the focus of governmental funds is narrower, it is useful to compare this information with similar information presented for governmental activities in the government-wide financial statements. Both the balance sheet and the statement of revenues, expenditures, and changes in fund balances for the governmental funds provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

City of Garden City, Michigan

Management's Discussion and Analysis (Continued)

The City maintains 42 individual governmental funds. Information is presented separately in the governmental fund balance sheet and statement of revenues, expenditures, and changes in fund balances for the General Fund and Major Streets Fund, which are considered to be major funds. Data for the other 40 governmental funds are combined into a single, aggregated presentation. Individual fund data for the nonmajor governmental funds is provided in the form of combining statements located in the other supplemental information section of this report.

The City adopts an annual appropriated budget for all of its governmental funds. Budgetary comparison statements have been provided for all major governmental funds to demonstrate budgetary compliance.

- **Proprietary funds** - Proprietary fund reporting, like government-wide statements, provide both short-term and long-term financial information. The City maintains two different types of proprietary funds. Enterprise Funds are used to report the same functions presented in the business-type activities in the government-wide financial statements. The City uses an Enterprise Fund to account for its water and sewer operation. This fund is considered a major fund of the City. Internal Service Funds accumulate and allocate costs internally among various functions. The City uses an Internal Service Fund to account for its self-insurance program. Because this program predominantly benefits governmental rather than business-type functions, it has been consolidated within the governmental activities in the government-wide financial statements.
- **Fiduciary funds** - Fiduciary funds are used to account for resources held for the benefit of parties outside of the City. Fiduciary funds are not reflected in the government-wide financial statements because the resources held in those funds are not available to finance the City's programs.

Notes to the Financial Statements

Notes to the financial statements provide additional information that is essential to the full understanding of the data provided in the government-wide and fund financial statements.

Required Supplemental Information

The required supplemental information is in addition to the basic financial statements and accompanying notes. This section of the report highlights the City's progress in funding its obligations to provide pension and other postemployment benefits to its employees. In addition, this section includes the budgetary comparison statements for the General Fund and major Special Revenue Fund.

City of Garden City, Michigan

Management's Discussion and Analysis (Continued)

Other Financial and Supplemental Information

The combining fund statements referred to earlier, as well as the City's schedule of indebtedness, are presented immediately following the required supplemental information section of this report.

The City as a Whole

The following table shows, in a condensed format, the net assets as of June 30, 2004 and compared to the prior year (in millions of dollars):

TABLE I

	Governmental Activities		Business-type Activities		Total	
	2003	2004	2003	2004	2003	2004
Assets						
Current assets	\$ 16.1	\$ 14.3	\$ 2.6	\$ 2.9	\$ 18.7	\$ 17.2
Noncurrent assets	47.9	44.5	35.0	34.8	82.9	79.3
Total assets	64.0	58.8	37.6	37.7	101.6	96.5
Liabilities						
Current liabilities	3.1	3.4	1.6	1.8	4.7	5.2
Long-term liabilities	15.3	12.9	13.0	12.1	28.3	25.0
Total liabilities	18.4	16.3	14.6	13.9	33.0	30.2
Net Assets						
Invested in capital assets -						
Net of related debt	32.8	33.3	21.2	21.9	54.0	55.2
Restricted	9.3	9.1	-	-	9.3	9.1
Unrestricted	3.5	0.1	1.8	1.9	5.3	2.0
Total net assets	<u>\$ 45.6</u>	<u>\$ 42.5</u>	<u>\$ 23.0</u>	<u>\$ 23.8</u>	<u>\$ 68.6</u>	<u>\$ 66.3</u>

The City's combined net assets decreased 3.3 percent from a year ago - increasing from \$66.3 million to \$68.6 million. A review of the governmental activities, separate from the business-type activities, shows a decrease of 6.8 percent, or approximately \$3.1 million, during fiscal year 2004. In contrast, the business-type activities experienced a 3.5 percent, or \$.8 million, increase in net assets during fiscal year 2004.

Governmental unrestricted net assets, the portion of net assets available to finance day-to-day operations and future growth, changed from \$3.5 million at June 30 2003 to \$.1 million at June 30, 2004. The decrease was mainly due to declines in state-shared revenue, limited property tax growth, lower interest income, and greater inflationary increases in overall City expenditures, including large increases in general liability and health care insurance costs.

City of Garden City, Michigan

Management's Discussion and Analysis (Continued)

In contrast, the business-type unrestricted net assets remained fairly steady at \$1.9 million for the fiscal year ended June 30, 2004, as compared to \$1.8 million for the fiscal year ended June 30, 2003. This consistency was due mainly to our adherence to the five-year plan adopted by the City Council in 2002. The plan incorporated rate increases to cover the rising costs to the City of providing and maintaining the water and sewer system for the citizens of the City of Garden City, Michigan. In compliance with the plan, the increased cost of water and sewage treatment from the Detroit Water and Sewer Department (DWSD) and Wayne County was passed onto the citizens of the City. In addition, the rate structure was set to cover any additional costs of critical repairs to the City's water and sewer infrastructure. The City is currently in litigation with DWSD regarding the wholesale rate charges.

The following table shows the changes in net assets (in millions of dollars) for the year ended June 30, 2004.

TABLE 2

	Governmental Activities		Business-type Activities		Total	
	2003	2004	2003	2004	2003	2004
Revenue						
Program revenue:						
Charges for services	\$ 2.2	\$ 2.4	\$ 6.2	\$ 6.6	\$ 8.4	\$ 9.0
Operating grants and contributions	2.4	2.4	0.4	0.2	2.8	2.6
Capital grants and contributions	0.1	-	-	-	0.1	-
General revenue:						
Property taxes	10.2	10.8	-	-	10.2	10.8
State-shared revenue	3.8	3.4	-	-	3.8	3.4
Unrestricted investment earnings	0.5	0.2	-	-	0.5	0.2
Franchise fees	0.3	0.3	-	-	0.3	0.3
Special items	-	(1.2)	-	-	-	(1.2)
Transfers	-	-	-	-	-	-
Total revenue	19.5	18.3	6.6	6.8	26.1	25.1
Program Expenses						
General government	5.1	5.2	-	-	5.1	5.2
Public safety	7.8	7.7	-	-	7.8	7.7
Public works	4.7	4.5	-	-	4.7	4.5
Community maintenance, development, and other	1.4	1.1	-	-	1.4	1.1
Culture and recreation	1.5	1.2	-	-	1.5	1.2
District Court	0.7	0.7	-	-	0.7	0.7
Interest expense	1.1	1.0	-	-	1.1	1.0
Water and sewer	-	-	6.1	6.0	6.1	6.0
Total program expenses	22.3	21.4	6.1	6.0	28.4	27.4
Change in Net Assets	\$ (2.8)	\$ (3.1)	\$ 0.5	\$ 0.8	\$ (2.3)	\$ (2.3)

City of Garden City, Michigan

Management's Discussion and Analysis (Continued)

Governmental Activities

The City's total governmental revenues decreased by approximately \$1.2 million due to the special item, loss from investment in the Central Wayne County Sanitation Authority joint venture. As discussed in Note 10, this is due to an impairment of its assets, which will be funded over the next 30 years. Revenue stayed consistent despite decreases in state-shared revenue and interest income. The offsetting factor was due primarily to the continuing increase in property taxes due to inflationary increases in property tax value, payments received on delinquent personal property taxes, and penalties and interest associated with late payments.

Expenses decreased by about \$.9 million during the year. Decreases reflect the City's tightened controls on spending, a continuing deficit-reduction plan, and reduced capital expenditures from the General Fund. Personnel costs were greatly reduced by retirements and attrition.

Business-type Activities

The City's business-type activities consist of the Water and Sewer Fund. We provide water to residents from the Detroit Water System. We provide sewage treatment through Wayne County. A positive cash flow for operation activities was realized as a result of strict adherence to the five-year plan adopted by the City Council in 2002.

The City's Funds

Our analysis of the City's major funds follows the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City as a whole. The City creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as the Major and Local Streets Funds. The City's major funds for the fiscal year ended June 30, 2004 included the General Fund and the Major Streets Fund, in accordance with GASB requirements.

The General Fund pays for most of the City's governmental services. The most significant are personnel costs. Personnel costs account for approximately 60 percent of the General Fund budget. Public safety (police and fire) costs account for approximately 37 percent of the General Fund budget in the fiscal year ended June 30, 2004. Also, the City contributed an additional \$306,061 to the Retiree Health Care Special Revenue Fund to continue its commitment to prepare for escalating health care costs.

The Major Streets Fund is used by the City to account for capital outlay expenditures related to road construction and maintenance. State revenue sources and transfers from other funds support the activities recorded in this fund. Net assets in the Major Streets Fund increased by approximately \$.6 million as planned expenditures were less than revenues for capital improvements to the City's major road system.

City of Garden City, Michigan

Management's Discussion and Analysis (Continued)

General Fund Budgetary Highlights

Over the course of the year, the City amended the budget to take into account events during the year. The most significant change was the decrease in revenue-sharing revenue. City departments overall stayed below the amended budget. The general office is the only department which appeared to be over its budget. However, without the unforeseen incinerator expenditures and the increase in retiree health care costs, this department would have fully operated within its budgeted amounts. The General Fund's fund balance decreased from \$757,594 a year ago to \$589,335 at June 30, 2004.

Capital Asset and Debt Administration

The City's investment in capital assets was reduced significantly in response to the reduction in revenue. Investment was still made in police cars, MIS, and roads to maintain the strides made in the improvement of the City's infrastructure.

Economic Factors and Next Year's Budgets and Rates

The City's budget for next year will show the effects of a city-wide fee restructure that makes our charges for services compatible the neighboring communities, and cover costs of services. Continued decreases in state-shared revenue are expected. We expect property tax revenue to rise at the rate of inflation pursuant to the restrictions of Proposal A and Headlee limitations.

As discussed above, we anticipate that the water rates will increase somewhat during the fiscal year ending June 30, 2005 to reflect the increases received from Detroit Water and Sewer Department and Wayne County, and in accordance with our five-year plan.

Pending Litigation

The Downtown Development Authority (DDA) and the City of Garden City, Michigan are defendants in litigation brought by Wayne Oakland contractors, which commenced on July 28, 2000 in the Wayne County Circuit Court. In that lawsuit, the plaintiff sought recovery of money damages arising out of a construction project within the City including road improvements that began in 1998. The Plaintiff claimed the DDA and the City breached and abandoned the contract by failing to allow the contract to begin on time with all easements in place, and that the underlying conditions were misrepresented to it causing it substantial cost overruns. In November 2002, the matter was tried before a Wayne County jury. The jury returned a verdict in the amount of \$12,000,000. The DDA and the City strongly disagree with the judgment and have appealed the decision to the Michigan Court of Appeals. While the outcome of the appeal cannot be predicted with any certainty, if the judgment is upheld, it will have an adverse and material effect on the DDA and the City.

City of Garden City, Michigan

Management's Discussion and Analysis (Continued)

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the office of the Treasurer/City Clerk.

City of Garden City, Michigan

Statement of Net Assets June 30, 2004

	Primary Government			
	Governmental	Business-type		Component Unit
	Activities	Activities	Total	
Assets				
Cash and investments (Note 3)	\$ 10,760,921	\$ 59,385	\$ 10,820,306	\$ 1,486,764
Receivables - Net (Note 4)	2,064,232	2,250,800	4,315,032	592,232
Internal balances	(397,242)	397,242	-	-
Inventories	-	26,244	26,244	-
Due from other governmental units	1,403,483	-	1,403,483	-
Prepaid costs and other assets	488,922	155,744	644,666	-
Capital assets - Net (Note 5)	44,513,134	34,836,902	79,350,036	2,161,335
Total assets	58,833,450	37,726,317	96,559,767	4,240,331
Liabilities				
Accounts payable	363,123	757,160	1,120,283	27,515
Accrued and other liabilities	570,806	185,887	756,693	28,817
Liability to CWCSA (Note 10)	770,385	-	770,385	-
Noncurrent liabilities:				
Compensated absences and other (Note 7):				
Due within one year	432,566	26,020	458,586	-
Due in more than one year	1,088,192	24,633	1,112,825	-
Long-term debt (Note 7):				
Due within one year	1,218,617	825,621	2,044,238	82,092
Due in more than one year	11,855,187	12,106,651	23,961,838	2,216,496
Total liabilities	16,298,876	13,925,972	30,224,848	2,354,920
Net Assets				
Invested in capital assets - Net of related debt	33,354,569	21,904,630	55,259,199	(137,253)
Restricted:				
Streets and highways	2,721,526	-	2,721,526	-
Debt service	556,460	-	556,460	-
Capital projects	5,444,681	-	5,444,681	-
Police drug confiscation monies	67,752	-	67,752	-
Incinerator Improvements	189,205	-	189,205	-
911	81,267	-	81,267	-
Franchise peg fees	24,829	-	24,829	-
Unrestricted	94,285	1,895,715	1,990,000	2,022,664
Total net assets	\$ 42,534,574	\$ 23,800,345	\$ 66,334,919	\$ 1,885,411

City of Garden City, Michigan

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs				
Primary government:				
Governmental activities:				
General government	\$ 5,153,379	\$ 60,568	\$ 15,712	\$ -
Public safety	7,661,435	422,660	46,063	-
Public works	4,531,688	361,947	-	-
Community maintenance, development, and other	1,091,520	445,965	2,104,047	-
Culture and recreation	1,243,872	510,353	224,703	-
District Court	709,613	611,009	45,724	-
Interest expense	1,019,139	-	-	-
Total governmental activities	21,410,646	2,412,502	2,436,249	-
Business-type activities	6,034,133	6,591,907	184,534	-
Total primary government	\$ 27,444,779	\$ 9,004,409	\$ 2,620,783	\$ -
Component unit - Downtown Development Authority	\$ 347,969	\$ -	\$ -	\$ 23,755
General revenues:				
Property taxes				
State-shared revenues				
Unrestricted investment earnings				
Franchise fees				
Special item - Gain on sale of capital assets				
Special item - Loss on investment in joint venture				
Transfers				
Total general revenues and special items				
Change in Net Assets				
Net Assets - Beginning of year				
Net Assets - End of year				

Statement of Activities Year Ended June 30, 2004

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	
\$ (5,077,099)	\$ -	\$ (5,077,099)	\$ -
(7,192,712)	-	(7,192,712)	-
(4,169,741)	-	(4,169,741)	-
-	-	-	-
1,458,492	-	1,458,492	-
(508,816)	-	(508,816)	-
(52,880)	-	(52,880)	-
(1,019,139)	-	(1,019,139)	-
(16,561,895)	-	(16,561,895)	-
-	742,308	742,308	-
(16,561,895)	742,308	(15,819,587)	-
-	-	-	(324,214)
10,765,953	-	10,765,953	427,874
3,417,544	-	3,417,544	-
150,109	1,672	151,781	11,800
284,083	-	284,083	-
2,220	-	2,220	-
(1,083,365)	-	(1,083,365)	-
-	-	-	-
13,536,544	1,672	13,538,216	439,674
(3,025,351)	743,980	(2,281,371)	115,460
45,559,925	23,056,365	68,616,290	1,769,951
<u>\$ 42,534,574</u>	<u>\$ 23,800,345</u>	<u>\$ 66,334,919</u>	<u>\$ 1,885,411</u>

City of Garden City, Michigan

Governmental Funds Balance Sheet June 30, 2004

	Major Funds		Nonmajor	Total
	General Fund	Major Streets Fund	Governmental Funds	Governmental Funds
Assets				
Cash and investments	\$ 2,725	\$ 2,308,256	\$ 7,208,165	\$ 9,519,146
Receivables - Net (Note 4)	785,347	-	1,307,555	2,092,902
Prepaid costs and other assets	277,647	-	-	277,647
Due from other funds (Note 6)	57,253	-	46,259	103,512
Due from other governmental units	1,096,993	219,514	86,976	1,403,483
Total assets	<u>\$ 2,219,965</u>	<u>\$ 2,527,770</u>	<u>\$ 8,648,955</u>	<u>\$ 13,396,690</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 345,046	\$ 1,238	\$ 16,839	\$ 363,123
Accrued and other liabilities	443,652	-	4,961	448,613
Due to other funds (Note 6)	832,539	-	103,512	936,051
Deferred revenue	9,393	-	1,189,771	1,199,164
Total liabilities	1,630,630	1,238	1,315,083	2,946,951
Fund Balances				
Reserved for:				
Capital project bond proceeds	-	-	1,915,239	1,915,239
Long-term receivable	148,433	-	7,992	156,425
Unreserved, reported in:				
General Fund	440,902	-	-	440,902
Special Revenue Funds	-	2,526,532	1,123,154	3,649,686
Debt Service Funds	-	-	556,460	556,460
Capital Projects Funds	-	-	3,731,027	3,731,027
Total fund balances	589,335	2,526,532	7,333,872	10,449,739
Total liabilities and fund balances	<u>\$ 2,219,965</u>	<u>\$ 2,527,770</u>	<u>\$ 8,648,955</u>	<u>\$ 13,396,690</u>
Fund Balance - Total governmental funds				\$ 10,449,739
Amounts reported for governmental activities in the statement of net assets are different because:				
Capital assets used in governmental activities are not financial resources and are not reported				44,513,134
Investment in joint venture				(770,385)
Special assessment and grant receivables are expected to be collected over several years and are not available				1,198,831
Long-term liabilities are not due and payable in the current period and are not reported in the funds				(14,065,705)
Bond issuance costs				185,775
Allowance for delinquent personal property taxes not reported in the funds				(28,338)
Internal Service Funds are included as part of governmental activities				1,168,149
Accrued interest on long-term liabilities				(116,626)
Net Assets - Governmental activities				<u>\$ 42,534,574</u>

City of Garden City, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2004

	Major Funds		Nonmajor	Total
	General Fund	Major Streets Fund	Governmental Funds	Governmental Funds
Revenue				
Property taxes	\$ 10,270,303	\$ -	\$ 495,650	\$ 10,765,953
Licenses and permits	355,640	-	-	355,640
Federal sources	259,736	-	132,586	392,322
State sources	3,446,053	1,292,597	541,855	5,280,505
Charges for services	784,582	-	77,204	861,786
21st District Court	580,423	-	-	580,423
Special assessments	-	-	499,898	499,898
Interest and other	758,923	18,332	285,904	1,063,159
Total revenue	16,455,660	1,310,929	2,033,097	19,799,686
Expenditures				
Current:				
General government	6,674,903	-	-	6,674,903
Public safety	6,522,673	-	-	6,522,673
Public service	1,661,320	-	-	1,661,320
Community maintenance, development, and other	-	351,537	1,173,661	1,525,198
Culture and recreation	821,273	-	-	821,273
Debt service	1,050,154	-	1,144,546	2,194,700
Total expenditures	16,730,323	351,537	2,318,207	19,400,067
Excess of Revenue Over (Under) Expenditures	(274,663)	959,392	(285,110)	399,619
Other Financing Sources (Uses)				
Payment to refunded bond escrow agent	(204,353)	-	-	(204,353)
Operating transfers in	1,842,465	-	839,857	2,682,322
Operating transfers out	(516,708)	(323,149)	(1,442,465)	(2,282,322)
Defeasance of long-term debt	(4,400,000)	-	-	(4,400,000)
Proceeds from the issuance of long-term debt	3,385,000	-	-	3,385,000
Total other financing sources (uses)	106,404	(323,149)	(602,608)	(819,353)
Net Change in Fund Balances	(168,259)	636,243	(887,718)	(419,734)
Fund Balances - Beginning of year	757,594	1,890,289	8,221,590	10,869,473
Fund Balances - End of year	<u>\$ 589,335</u>	<u>\$ 2,526,532</u>	<u>\$ 7,333,872</u>	<u>\$ 10,449,739</u>

City of Garden City, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2004

Net Change in Fund Balances - Total Governmental Funds	\$ (419,734)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	45,791
Governmental funds do not report depreciation as expenditures in the statement of activities because capital outlay is reported as an expenditure	(3,502,855)
Special assessment and grant revenues are recorded in the statement of activities when the assessment is set; they are not reported in the funds until collected or collectible within 60 days of year end	(349,003)
Joint venture loss	(1,083,365)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	1,362,371
Bond proceeds are not reported as financing sources on the statement of activities	(3,385,000)
Payments to bond escrow agent are not reported as other financing uses on the statement of activities	4,150,000
Bond issuance costs are not reported as other financing uses on the statement of activities because they are capitalized and amortized over the term of the bond	185,775
Accrued interest	49,195
Increase in accumulated employee sick and vacation pay, as well as estimated general liability claims, are recorded when earned in the statement of activities	(65,145)
Internal Service Funds are also included as governmental activities	<u>(13,381)</u>
Change in Net Assets of Governmental Activities	<u>\$ (3,025,351)</u>

City of Garden City, Michigan

Proprietary Funds Statement of Net Assets June 30, 2004

	Enterprise - Water and Sewer Fund	Internal Service Funds
Assets		
Current assets:		
Cash and cash equivalents	\$ 59,385	\$ 1,241,777
Receivables - Net (Note 4)	2,250,800	-
Due from other funds (Note 6)	397,242	435,297
Inventories	26,244	-
Prepaid costs and other assets	1,907	25,500
Total current assets	2,735,578	1,702,574
Noncurrent assets:		
Unamortized bond discount	153,837	-
Capital assets	34,836,902	-
Total noncurrent assets	34,990,739	-
Total assets	37,726,317	1,702,574
Liabilities		
Current liabilities:		
Accounts payable	757,160	5,568
Accrued and other liabilities	185,887	-
Current portion of long-term debt	851,641	-
Total current liabilities	1,794,688	5,568
Noncurrent liabilities - Long-term debt - Net of current portion	12,131,284	528,857
Total liabilities	13,925,972	534,425
Net Assets		
Investment in capital assets - Net of related debt	21,853,977	-
Unrestricted	1,946,368	1,168,149
Total net assets	<u>\$ 23,800,345</u>	<u>\$ 1,168,149</u>

City of Garden City, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2004

	Enterprise - Water and Sewer Fund	Internal Service Funds
Operating Revenue		
Water and sewer services	\$ 6,205,769	\$ -
Water and sewer taps	68,357	-
Other operating revenue	317,781	-
Federal revenue	184,534	-
Charges for services	-	425,790
	<hr/>	<hr/>
Total operating revenue	6,776,441	425,790
Operating Expenses		
Personal services	883,803	-
Supplies	101,007	-
Other services and charges	3,691,537	-
Depreciation and amortization	744,839	-
Claims expense	-	56,702
	<hr/>	<hr/>
Total operating expenses	5,421,186	56,702
Operating Income	1,355,255	369,088
Nonoperating Revenue (Expense)		
Investment income	1,672	17,531
Interest expense	(612,947)	-
	<hr/>	<hr/>
Income - Before transfers	743,980	386,619
Transfers to Other Funds	-	(400,000)
	<hr/>	<hr/>
Change in Net Assets	743,980	(13,381)
Net Assets - Beginning of year	23,056,365	1,181,530
	<hr/>	<hr/>
Net Assets - End of year	<u>\$ 23,800,345</u>	<u>\$ 1,168,149</u>

City of Garden City, Michigan

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2004

	Enterprise - Water and Sewer Fund	Internal Service Funds
Cash Flows from Operating Activities		
Receipts from customers	\$ 6,494,367	\$ 418,790
Federal grants	184,534	-
Payments to suppliers	(3,618,171)	-
Payments to employees	(931,691)	-
Claims paid	-	(532,041)
Net cash provided by (used in) operating activities	2,129,039	(113,251)
Cash Flows from Capital and Related Financing Activities		
Principal and interest paid on long-term debt	(1,407,517)	-
Purchases of capital assets	(596,585)	-
Net cash used in capital and related financing activities	(2,004,102)	-
Cash Flows from Noncapital Financing Activities - Operating transfer and interfund loans	(397,242)	(386,449)
Cash Flows from Investing Activities - Interest received on investments	1,672	17,531
Net Decrease in Cash and Cash Equivalents	(270,633)	(482,169)
Cash and Cash Equivalents - Beginning of year	330,018	1,723,946
Cash and Cash Equivalents - End of year	<u>\$ 59,385</u>	<u>\$ 1,241,777</u>
Reconciliation of Operating Income to Net Cash from Operating Activities		
Operating income	\$ 1,355,255	\$ 369,088
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation and amortization	744,839	-
Changes in assets and liabilities:		
Increase in receivables	(97,540)	-
Increase in prepaid costs and other assets	(1,907)	(7,000)
Increase in accounts payable	176,280	-
Decrease in accrued and other liabilities	(47,888)	(475,339)
Net cash provided by (used in) operating activities	<u>\$ 2,129,039</u>	<u>\$ (113,251)</u>

Noncash Investing, Capital, and Financing Activities - During the year ended June 30, 2004, there were no noncash activities.

City of Garden City, Michigan

Fiduciary Funds Statement of Net Assets June 30, 2004

	Pension Trust Fund - Employees' Retirement System	Agency Fund - General Agency
Assets		
Cash and cash equivalents	\$ 1,689,405	\$ 523,252
Investments at fair value	52,840,127	-
Receivables - Accrued interest	138,130	-
Due from other governmental units	-	133,293
Total assets	54,667,662	656,545
Liabilities - Other liabilities	19,983	656,545
Net Assets - Held in trust for pension benefits	\$ 54,647,679	\$ -

City of Garden City, Michigan

Fiduciary Funds Statement of Changes in Net Assets Year Ended June 30, 2004

	<u>Pension and Other Employee Benefits</u>
Additions	
Employee contributions	\$ 397,958
Investment income:	
Net increase in fair value of investments	7,070,343
Interest and dividends	15,172
Less investment expenses	<u>(309,983)</u>
Net investment income	<u>6,775,532</u>
Total additions	7,173,490
Deductions	
Benefit payments	2,849,045
Withdrawals and refunds	<u>712,463</u>
Total deductions	<u>3,561,508</u>
Net Increase	3,611,982
Net Assets Held in Trust for Pension Benefits	
Beginning of year	<u>51,035,697</u>
End of year	<u>\$ 54,647,679</u>

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the City of Garden City, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City:

Reporting Entity

The City is governed by an elected seven-member council. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the City's operations. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City.

Blended Component Units - The City of Garden City Building Authority is governed by a board that is appointed by the City Council. Although it is legally separate from the City, it is reported as if it were part of the primary government because its primary purpose is to finance and construct the City's public buildings.

The City of Garden City Employees' Retirement System (the "System") has also been blended into the City's financial statements. The System is governed by a five-member pension board that includes three individuals chosen by the City Council. The System is reported as if it were part of the primary government because of the fiduciary responsibility that the City retains relative to the operations of the retirement system.

Discretely Presented Component Units - The City of Garden City Downtown Development Authority (DDA) is reported in the component unit column in the combined financial statements. It is reported in a separate column to emphasize that it is legally separate from the City. The Downtown Development Authority was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the district. The DDA's governing body, consisting of 11 individuals, is selected by the City Council. In addition, the DDA's budget is subject to approval by the City.

Jointly Governed Organization - The City is a member of the Nankin Transit Commission, which provides transportation services to residents of Garden City, Westland, Canton, Wayne, and Inkster. In addition, the City is a member of the Central Wayne County Sanitation Authority, which provides incineration services to the residents of Garden City, Inkster, Dearborn Heights, Wayne, and Westland. See Note 10 for additional information.

Note 1 - Summary of Significant Accounting Policies (Continued)

The City of Garden City Hospital Finance Authority's purpose is to construct, acquire, reconstruct, remodel, improve, add to, enlarge, repair, own, and lease hospital facilities for the use of any nonprofit hospital inside or outside the boundaries of the City. The City of Garden City Hospital Finance Authority holds no assets and had no financial activity during the year.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component unit for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Note I - Summary of Significant Accounting Policies (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available to finance expenditures of the fiscal period. Property taxes, state-shared revenue, special assessments, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the City.

The City reports the following major governmental funds:

General Fund - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Streets Fund - The Major Streets Fund accounts for the resources of State gas and weight tax revenues that are restricted for use on local streets.

The City reports the following major proprietary fund:

Water and Sewer Fund - The Water and Sewer Fund accounts for the activities of the water distribution system and sewage collection system.

Additionally, the City reports the following fund types:

Internal Service Fund - The Internal Service Fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City primarily on a cost-reimbursement basis.

Note 1 - Summary of Significant Accounting Policies (Continued)

Employees' Retirement System - The Employees' Retirement System accounts for the activities of the employees' retirement system, which accumulates resources for pension benefit payments to qualified employees.

General Agency Fund - The General Agency Fund accounts for assets held by the City in a trustee capacity or as an agent for individuals, employees, organizations, other governments, or other funds. The General Agency Fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Private sector standards of accounting issued before December 1, 1989 are generally followed in both government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to apply private sector standards issued after November 30, 1989 for its Enterprise Fund.

Note 1 - Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. The City manages and accounts for cash and cash equivalents via an internal pooled cash management technique whereby all cash and cash equivalents of the City are consolidated.

Accounting procedures are structured to maintain segregated totals for each fund. Those totals are reflected in each fund as "cash and cash equivalents."

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are shown as net of allowances for uncollectible amounts.

Property Taxes - Property taxes are assessed at December 31 and the related property taxes become a lien at that time. These taxes are billed on July 1 of the following year, and are due on September 1, with the final collection date of February 28 before they are added to the county tax rolls.

The 2003 taxable value of the City totaled \$597 million, on which ad valorem taxes levied consisted of 14.2031 mills for the City's operating purposes, 2.6325 mills for refuse collection, and .08299 mills for CWCSA debt. The ad valorem taxes levied raised \$8.5 million for operation, \$1.6 million for refuse collection, and approximately \$.5 for CWCSA debt.

Inventories and Prepaid Items - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Note 1 - Summary of Significant Accounting Policies (Continued)

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Roads and sidewalks	9 to 30 years
Water and sewer distribution systems	50 to 100 years
Drain separation project	40 to 50 years
Buildings and improvements	50 years
Vehicles and equipment	3 to 5 years
Meters	15 years
Office furnishings	5 to 7 years
Machinery and equipment	3 to 7 years

Compensated Absences (Vacation and Sick Leave) - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All vacation and sick leave pay is accrued when incurred in the government-wide and proprietary financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Note 1 - Summary of Significant Accounting Policies (Continued)

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Stewardship, Compliance, and Accountability

Noncompliance with Legal or Contractual Provisions - The City has not currently adopted a formal policy to make and accept electronic fund transfers (ACH payments). A formal policy is required under Public Act 738.

State Construction Code Act - The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative shortfall generated since January 1, 2000 is as follows:

Cumulative shortfall at July 1, 2003		\$ (208,390)
Building permit revenue		305,103
Related expenses:		
Direct costs	\$ 278,790	
Estimated indirect costs	<u>113,218</u>	
Total construction code costs		<u>392,008</u>
Cumulative shortfall at June 30, 2004		<u><u>\$ (295,295)</u></u>

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The City is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The City has designated nine banks for the deposit of its funds. The investment policy adopted by the City Council in accordance with Public Act 196 of 1997 has authorized investment in all of the items described above, except for repurchase agreements and obligations of the State of Michigan or its political subdivisions.

The Pension Trust Fund is also authorized by Michigan Public Act 55 of 1982 (as amended) to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

The City's deposits and investment policies are in accordance with statutory authority.

At year end, the deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Business-type Activities	Total Primary Government	Fiduciary Funds	Component Units
Cash and cash equivalents	\$ 4,773,200	\$ 59,385	\$ 4,832,585	\$ 2,212,657	\$ 1,486,764
Investments	<u>5,987,721</u>	<u>-</u>	<u>5,987,721</u>	<u>52,840,127</u>	<u>-</u>
Total	<u>\$ 10,760,921</u>	<u>\$ 59,385</u>	<u>\$ 10,820,306</u>	<u>\$ 55,052,784</u>	<u>\$ 1,486,764</u>

City of Garden City, Michigan

Notes to Financial Statements June 30, 2004

Note 3 - Deposits and Investments (Continued)

The breakdown between deposits and investments for the City is as follows:

	Primary Government	Fiduciary Funds	Component Units
Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 5,829,860	\$ 2,212,657	\$ 1,486,764
Investments in securities, mutual funds, and similar vehicles	4,987,721	52,840,127	-
Petty cash or cash on hand	2,725	-	-
Total	<u>\$ 10,820,306</u>	<u>\$ 55,052,784</u>	<u>\$ 1,486,764</u>

Deposits

The above deposits of the primary government, fiduciary, and component unit were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at \$9,668,780. Of that amount, approximately \$600,000 was covered by federal depository insurance, and the remainder was uninsured and uncollateralized.

The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Investments

Investments are categorized into these three categories of credit risk:

Category 1 - Insured, registered, with securities held by the City or its agent in the City's name

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name

Category 3 - Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name

City of Garden City, Michigan

Notes to Financial Statements June 30, 2004

Note 3 - Deposits and Investments (Continued)

At year end, the City's investment balances were categorized as follows:

	Category			Reported Amount (Fair Value)
	1	2	3	
Primary government:				
U.S. government securities	\$ -	\$ -	\$ 1,480,290	\$ 1,480,290
Investments not subject to categorization - Mutual funds	-	-	-	3,507,431
Total primary government	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,480,290</u>	<u>\$ 4,987,721</u>
Fiduciary funds:				
U.S. government securities	\$ -	\$ 8,921,825	\$ -	\$ 8,921,825
Corporate bonds	-	4,582,184	-	4,582,184
Common stock	-	33,865,289	-	33,865,289
Common trust funds	-	3,235,875	-	3,235,875
Investments not subject to categorization - Mutual funds	-	-	-	2,234,954
Total fiduciary funds	<u>\$ -</u>	<u>\$ 50,605,173</u>	<u>\$ -</u>	<u>\$ 52,840,127</u>

Investments not subject to categorization are not evidenced by securities that exist in physical or book entry form. The mutual funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. The mutual funds are registered with the SEC. Management believes that the investments of the City comply with the investment authority noted above.

To the extent that cash from various funds has been pooled, related investment income is allocated to each fund based on relative participation in the pool, except that the Agency Fund investment earnings are allocated to the General Fund.

Included in the City's system investments at June 30, 2004 are the following:

- U.S. Treasury strips of approximately \$2,178,007. The strips represent the purchase of the principal portion of a United States Treasury note. Similar to a zero coupon bond, it is purchased at a discount (which represents the future interest earnings of the instrument). The strips are presented at fair market value. Therefore, amortization of discount is not indicated on the financial statements. There is no prepayment risk associated with this instrument, as the U.S. government is not allowed to call it early. Purchase of these strips allows the City to lock in favorable interest rates for the term of the security.

Note 3 - Deposits and Investments (Continued)

- Approximately \$573,499 of securities issued by the Government National Mortgage Association (GNMA). These investments are backed by the full faith and credit of the U.S. government. The yields provided by these mortgage-related securities historically have exceeded the yields on other types of U.S. government securities with comparable maturities, in large measure due to the potential for prepayment. Prepayment could result in difficulty in reinvesting the prepaid amounts in investments with comparable yields.
- Approximately \$3,201,932 of collateralized mortgage obligations (or obligations of the Federal National Mortgage Association). These investments are usually not backed by the full faith and credit of the U.S. government, but are generally considered to offer modest credit risks. The yields provided by these mortgage-related securities historically have exceeded the yields on other types of U.S. government securities with comparable maturities, in large measure due to the potential for prepayment. Prepayment could result in difficulty in reinvesting the prepaid amounts in investments with comparable yields.

Note 4 - Receivables

Receivables as of year end for the City's individual major fund and the nonmajor funds are as follows:

	General Fund	Nonmajor Funds	Total
Receivables:			
Special assessment	\$ -	\$ 1,232,739	\$ 1,232,739
Property taxes and other	<u>785,347</u>	<u>74,816</u>	<u>860,163</u>
Net receivables	<u>\$ 785,347</u>	<u>\$ 1,307,555</u>	<u>\$ 2,092,902</u>

City of Garden City, Michigan

Notes to Financial Statements June 30, 2004

Note 4 - Receivables (Continued)

Receivables as of year end for the City's governmental activities, business-type activities, and component unit activities, including the applicable allowances for uncollectible accounts, are as follows:

	Governmental Activities	Business-type Activities	Component Unit
Receivables:			
Receivable from operations	\$ -	\$ 2,250,800	\$ -
Special assessment	1,232,739	-	592,232
Property taxes and other	831,493	-	-
Net receivables	<u>\$ 2,064,232</u>	<u>\$ 2,250,800</u>	<u>\$ 592,232</u>

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Unavailable
Special assessments	\$ 1,126,722
Grant reimbursements not available in the current period	<u>72,442</u>
Total	<u>\$ 1,199,164</u>

City of Garden City, Michigan

Notes to Financial Statements June 30, 2004

Note 5 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

	Balance July 1, 2003	Additions	Disposals and Adjustments	Balance June 30, 2004
Governmental Activities				
Capital assets not being depreciated -				
Land and land improvements	\$ 1,414,961	\$ -	\$ -	\$ 1,414,961
Capital assets being depreciated:				
Roads and sidewalks	88,034,126	-	-	88,034,126
Buildings and improvements	7,333,007	-	-	7,333,007
Vehicles and equipment	11,617,760	45,791	-	11,663,551
Subtotal	106,984,893	45,791	-	107,030,684
Accumulated depreciation:				
Roads and sidewalks	48,563,252	2,659,081	-	51,222,333
Buildings and improvements	2,938,147	57,485	-	2,995,632
Vehicles and equipment	8,928,257	786,289	-	9,714,546
Subtotal	60,429,656	3,502,855	-	63,932,511
Net capital assets being depreciated	46,555,237	(3,457,064)	-	43,098,173
Net capital assets	\$ 47,970,198	\$ (3,457,064)	\$ -	\$ 44,513,134

City of Garden City, Michigan

Notes to Financial Statements June 30, 2004

Note 5 - Capital Assets (Continued)

	Balance July 1, 2003	Additions	Disposals and Adjustments	Balance June 30, 2004
Business-type Activities				
Capital assets being depreciated:				
Water and sewer distribution systems	\$ 11,161,769	\$ 408,038	\$ -	\$ 11,569,807
Drain Separation Project	28,122,982	-	-	28,122,982
Vehicles	802,464	122,212	-	924,676
Meters	601,005	66,335	-	667,340
Office furnishings	38,366	-	-	38,366
Machinery and equipment	631,922	-	-	631,922
Subtotal	41,358,508	596,585	-	41,955,093
Accumulated depreciation:				
Water and sewer distribution systems	3,099,459	73,641	-	3,173,100
Drain Separation Project	2,249,838	562,458	-	2,812,296
Vehicles	622,975	33,146	-	656,121
Meters	76,912	31,647	-	108,559
Office furnishings	23,546	2,254	-	25,800
Machinery and equipment	331,581	10,734	-	342,315
Subtotal	6,404,311	713,880	-	7,118,191
Net capital assets	\$ 34,954,197	\$ (117,295)	\$ -	\$ 34,836,902

Capital asset activity of the City's component unit activity was as follows:

	Balance July 1, 2003	Additions	Disposals and Adjustments	Balance June 30, 2004
Component Unit				
Capital assets being depreciated:				
Land improvements	\$ 2,451,530	\$ 8,870	\$ -	\$ 2,460,400
Equipment	90,796	-	-	90,796
Subtotal	2,542,326	8,870		2,551,196
Accumulated depreciation:			-	
Land improvements	294,184	49,622	-	343,806
Equipment	34,441	11,614	-	46,055
Subtotal	328,625	61,236	-	389,861
Net capital assets being depreciated	\$ 2,213,701	\$ (52,366)	\$ -	\$ 2,161,335

City of Garden City, Michigan

Notes to Financial Statements June 30, 2004

Note 5 - Capital Assets (Continued)

Depreciation expense was charged to functions of the primary government as follows:

Governmental activities:

General government	\$ 40,066
Public safety	530,665
Public works	2,856,120
Recreation and culture	<u>76,004</u>

Total governmental activities	<u>\$ 3,502,855</u>
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Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Due to/from Other Funds		
General Fund	Special Revenue Fund - Community Development Block Grant	\$ 43,051
	Capital Projects Fund - Birchlawn and Beechwood Paving	<u>14,202</u>
	Total General Fund	57,253
Special Revenue Fund	Special Revenue Fund - Community Development Block Grant	5,786
Capital Projects Fund	Capital Projects Fund - John Hauk/South Lathers Reconstruction	40,238
	North Mid-Lathers Road Improvements	<u>235</u>
	Total Capital Projects Fund	<u>40,473</u>
	Total governmental funds	<u>\$ 103,512</u>
Water and Sewer Fund	General Fund	\$ 397,242
Internal Service Fund	General Fund	<u>435,297</u>
	Total proprietary funds	<u>\$ 832,539</u>

Note 6 - Interfund Receivables, Payables, and Transfers (Continued)

Interfund Transfers

Fund Transferred From	Fund Transferred To	Amount
General Fund	Library Fund (1)	\$ 200,000
	Retiree Health Care Fund (2)	306,061
	Sidewalk Program Fund #4	4,000
	Sidewalk Program Fund #3	2,000
	North Mid-Lathers Road Fund	<u>4,647</u>
	Total General Fund	516,708
Nonmajor governmental funds:		
Major Streets Fund	Local Streets Fund (3)	323,149
Perrin Drain Fund	General Fund (5)	487,875
Capital Projects Fund	General Fund (4)	<u>954,590</u>
	Total nonmajor governmental funds	1,765,614
Internal Service Fund	General Fund (5)	<u>400,000</u>
	Total	<u>\$ 2,682,322</u>

(1) Transfer for Library expenditures

(2) Transfer for retiree health care expenditures

(3) Transfer of Act 51 money to fund Local Streets Fund projects

(4) Transfer of excess Capital Project Fund fund balance to pay down a portion of the debt defeased

(5) Transfer of discretionary funds to be used for the benefit of the community

Note 7 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. Installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the City is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a reassessment of the district) are received.

Long-term obligation activity can be summarized as follows:

	Interest Rate Range	Maturity Date	Original Maturity	Principal Maturity Range	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities									
General obligation - 1993 Road and Drain Improvement Limited Tax Bonds*	5.10% - 5.25%	2008	\$ 1,700,000	\$150,000 - \$175,000	\$ 800,000	\$ -	\$ 650,000	\$ 150,000	\$ 150,000
General obligation - 2004 Limited Tax Refunding Bonds	3.00% - 4.50%	2015	\$ 3,385,000	\$230,000 - \$425,000	-	3,385,000	-	3,385,000	230,000
General obligation - 1991 Road and Drain Improvement Limited Tax Bonds	6.11%	2006	\$ 1,846,400	\$125,000	395,000	-	125,000	270,000	125,000
General obligation - 1997 Road and Drain Improvement Limited Tax Bonds*	4.75% - 5.00%	2015	\$ 5,464,250	\$250,000 - \$400,000	3,900,000	-	3,900,000	-	-
1991 Special assessment bonds with government commitments	4.60% - 6.11%	2015	\$ 1,038,600	\$55,000	205,000	-	75,000	130,000	75,000
1993 Special assessment bonds with government commitments	5.10% - 5.25%	2008	\$ 190,000	\$20,000 - \$25,000	115,000	-	25,000	90,000	25,000
1997 Special assessment bonds with government commitments	4.75% - 5.00%	2015	\$ 4,470,750	\$150,000 - \$300,000	3,135,000	-	300,000	2,835,000	300,000
Police Station Limited Tax General Obligation	6.00%	2022	\$ 4,150,000	\$250,000	1,000,000	-	-	1,000,000	-
Police Station Limited Tax General Obligation	4.10% - 6.05%	2018	\$ 3,115,000	\$120,000 - \$250,000	2,655,000	-	120,000	2,535,000	120,000
1995 Sewer Disposal System Bonds	4.90%	2004	\$ 3,600,000	\$120,000 - \$160,000	160,000	-	160,000	-	-
2001 Sewage Disposal System Refunding Bonds	4.00% - 4.80%	2016	\$ 2,821,700	\$188,000 - \$264,000	2,749,166	-	74,381	2,674,785	189,598
Installment note	5.12%	2004	\$ 350,000	\$83,000	87,009	-	82,990	4,019	4,019
Total governmental activities			\$ 32,131,700	\$513,000	\$ 15,201,175	\$ 3,385,000	\$ 5,512,371	\$ 13,073,804	\$ 1,218,617
Tax tribunal					\$ 61,859	\$ -	\$ -	\$ 61,859	\$ 61,859
Self-insurance claims					985,810	-	(456,953)	528,857	-
Compensated absences					864,897	65,145	-	930,042	370,707
Total compensated absences and other					\$ 1,912,566	\$ 65,145	\$ (456,953)	\$ 1,520,758	\$ 432,566

* During 2004, a portion of debt was defeased and the obligation has been removed from the City's total debt obligation.

City of Garden City, Michigan

Notes to Financial Statements June 30, 2004

Note 7 - Long-term Debt (Continued)

	Interest Rate Range	Maturity Date	Original Maturity	Principal Maturity Range	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type Activities									
1998 Development Bonds (limited tax general obligation)	4.25%- 6.25%	2019	\$ 540,000	\$1,800 - \$45,000	\$ 510,274	\$ -	\$ 8,954	\$ 501,320	\$ 17,908
1996 Sewer Disposal System Bonds	5.25%- 5.50%	2016	\$ 6,000,000	\$250,000 - \$575,000	5,000,000	-	250,000	4,750,000	250,000
1995 Sewer Disposal System Bonds	4.80% - 4.90%	2004	\$ 5,400,000	\$240,000	240,000	-	240,000	-	-
2001 Sewage Disposal System Refunding Bonds	4.00%- 4.80%	2016	\$ 6,908,300	\$451,000 - \$641,000	6,675,833	-	180,617	6,495,216	460,402
State Revolving fund Debt	2.00% - 2.25%	2016	\$ 2,435,000	\$25,000 - \$85,000	1,459,933	-	115,000	1,344,933	115,000
Less deferred charges on refunding					(176,886)	-	(17,689)	(159,197)	(17,689)
Total business-type activities					\$ 13,709,154	\$ -	\$ 776,882	\$ 12,932,272	\$ 825,621
Compensated absences					\$ 69,526	\$ -	\$ (18,873)	\$ 50,653	\$ 26,020
Component Unit - 1998 Development Bonds									
	4.25% - 6.25%	2019	\$ 2,460,000	\$41,000 - \$205,000	\$ 2,339,634	\$ -	\$ 41,046	\$ 2,298,588	\$ 82,092

Annual debt service requirements to maturity for the above bond and note obligations are as follows:

	Governmental Activities			Business-type Activities			Component Unit		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 1,218,617	\$ 622,392	\$ 1,841,009	\$ 825,618	\$ 584,285	\$ 1,409,903	\$ 82,092	\$ 107,911	\$ 190,003
2006	1,188,139	554,220	1,742,359	822,077	552,108	1,374,185	82,092	103,806	185,898
2007	1,083,973	509,262	1,593,235	886,243	518,347	1,404,590	82,092	100,267	182,359
2008	1,127,517	461,836	1,589,353	961,651	480,831	1,442,482	123,139	95,853	218,992
2009	909,601	413,725	1,323,326	1,004,567	439,328	1,443,895	123,139	92,353	215,492
2010-2014	4,757,802	1,412,578	6,170,380	5,731,546	1,451,138	7,182,684	779,903	295,347	1,075,250
2015-2019	2,038,155	443,748	2,481,903	2,700,570	232,033	2,932,603	1,026,131	178,119	1,204,250
2020-2023	750,000	67,500	817,500	-	-	-	-	5,131	5,131
Total	\$ 13,073,804	\$ 4,485,261	\$ 17,559,065	\$ 12,932,272	\$ 4,258,070	\$ 17,190,342	\$ 2,298,588	\$ 978,787	\$ 3,277,375

No Commitment Debt

Excluded from long-term debt are revenue bonds issued by the Garden City Hospital Financing Authority to acquire and lease property to third parties. The revenue bonds issued are payable solely from the net revenue derived from the respective leases and are not a general obligation of the City. After these bonds are issued, all financial activity is taken over by the paying agent. The bonds and related lease contracts are not reflected in the City's financial statements. As of the balance sheet date, there was one series of such bonds outstanding, with principal outstanding of approximately \$22,525,000. Information regarding the status of the bond issue, including possible default, must be obtained from the paying agent or other knowledgeable source.

Note 7 - Long-term Debt (Continued)

Defeased Debt

During the year, the City issued \$3,385,000 in general obligation bonds with an interest rate ranging from 3.00 percent to 4.50 percent. The proceeds of these bonds were used to advance refund \$4,150,000 of outstanding general obligation road and drain improvement bonds with an interest rate ranging from 4.75 percent to 5.25 percent. The proceeds of \$3,385,000 recorded in the General Fund were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the original bonds. As a result, the bonds are considered to be defeased and the liability for the bonds has been removed from the governmental activities debt in the statement of net assets. The advance refunding reduced total debt service payments over the next 11 years by approximately \$239,766, which represents an economic gain of approximately \$57,000. At June 30, 2004, \$4,150,000 of bonds outstanding are considered defeased.

Note 8 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical benefit claims and participates in the Michigan Municipal Risk Management Authority for claims relating to general liabilities; the City is uninsured for workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal Risk Management Authority (the "Authority") risk pool program operates as a claims servicing pool for amounts up to member retention limits, and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although premiums are paid annually to the Authority that the Authority uses to pay claims up to the retention limits, the ultimate liability for those claims remains with the City.

Note 8 - Risk Management (Continued)

The City estimates the liability for general liability and workers' compensation claims that have been incurred through the end of the fiscal year, including those claims that have been reported as well as those that have not yet been reported. Changes in the estimated liability for the past two fiscal years were as follows:

	General Liability	Workers' Compensation	Total
Unpaid claims - Beginning of year	\$ 308,207	\$ 677,603	\$ 985,810
Estimated claims incurred, including changes in estimates	(22,635)	79,339	56,704
Claim payments	<u>(87,422)</u>	<u>(426,235)</u>	<u>(513,657)</u>
Unpaid claims - End of year	<u>\$ 198,150</u>	<u>\$ 330,707</u>	<u>\$ 528,857</u>

Note 9 - Defined Benefit Pension Plan and Postretirement Benefits

Plan Description

The Garden City Employees' Retirement System is a single-employer defined benefit pension plan that is administered by the City of Garden City Employees' Retirement System; this plan covers substantially all employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. At June 30, 2004, the date of the most recent actuarial valuation, membership consisted of 138 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them and 157 current active employees. The plan does not issue a separate financial report.

Contributions

Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Please refer to Note 1 for further significant accounting policies.

Note 9 - Defined Benefit Pension Plan and Postretirement Benefits (Continued)

The obligation to contribute to and maintain the System for these employees was established by negotiation with the City's competitive bargaining units and requires a contribution from the employees of 5 percent. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed through investment earnings.

Annual Pension Cost

For the year ended June 30, 2004, the City's annual pension cost of \$0 for the plan was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at June 30, 2003, using the entry age actuarial cost method. Significant actuarial assumptions used include (a) a 7.50 percent investment rate of return, (b) projected salary increases of 5 percent to 9 percent per year, and (c) 2 percent per year cost of living adjustments. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll basis. The remaining amortization period is 10 years.

Three-year trend information as of June 30 follows:

	Fiscal Year Ended June 30		
	2002	2003	2004
General Employees' Retirement System:			
Annual pension costs (APC)	\$ -	\$ -	\$ -
Percentage of APC contributed	-	-	-
Net pension obligation	\$ -	\$ -	\$ -

Reserves

As of June 30, 2004, the plan's legally required reserves have been fully funded as follows:

Reserve for employees' contributions (pension savings)	\$ 3,324,404
Reserve for retired benefit payments (pension reserve)	37,799,465

Note 10 - Joint Ventures

The City is a member of the Nankin Transit Commission, which provides transportation services to residents of Garden City, Westland, Canton, Wayne, and Inkster. The participating communities provide annual funding for its operations. During the current year, the City contributed \$34,000 for its operations. The City has no material equity interest in the Nankin Transit Commission at June 30, 2004. The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. Complete financial statements for the Nankin Transit Commission can be obtained from the administrative offices at 37137 Marquette, Westland, Michigan 48185.

The City is also a member of the Central Wayne County Sanitation Authority (the "Authority"). The City appoints one member to the joint venture's governing board, which approves the annual budget. The debt of the joint venture is being financed by operations and member millage. During the current year, the Authority's combined net assets decreased by approximately \$8,462,000 due to several factors related to the change in operations during the year. It is anticipated that the monofill owned by the Authority will no longer be accepting refuse, resulting in an impairment loss of \$9,298,000 recognized in the current year. In addition, the entire estimated closure and postclosure care costs are now recorded as a liability for the Authority. As a result, the Authority has a net asset deficit of \$5,836,000 as of June 30, 2004. The liability will be funded over the next 30 years as the debt payments and postclosure costs come due.

The City contributed \$1,615,081 for sanitation costs passed through the Authority. In addition, the City recorded a long-term liability related to the Authority of \$770,385 in the government-wide statement of net assets. Complete financial statements for the Authority can be obtained from the administrative offices at 4901 South Inkster Road, Dearborn Heights, Michigan 48125.

Note 11 - Other Postemployment Benefits

The City provides health care benefits to all full-time employees upon retirement, in accordance with labor contracts. Currently, 148 retirees are eligible. The City includes pre-Medicare retirees and their spouses in its insured health care plan, with no contribution required by 94 of the participants in accordance with various union contracts. The remainder of the retirees are making partial contributions for health care benefits. The City purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for postemployment health care benefits are recognized as the insurance premiums become due. During the year, approximately \$1,439,000 was paid by General Fund on behalf of the Employees' Retirement System and recorded as an expenditure of the System as paid.

Note 11 - Other Postemployment Benefits (Continued)

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any “other” postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2009.

Note 12 - Personal Property Taxes

In November 1999, the State Tax Commission approved revised personal property tax tables for utilities. The revised tables affected taxes collected from 1997 to present due to local units of government continuing to use the personal property tax tables in effect prior to 1999. The issue was the subject of a lawsuit brought by several units of government against the State Tax Commission challenging the constitutionality of the new utility personal property tax tables. In April 2002, the revised tables were upheld by the court.

During 2004, the tax tables were again upheld on appeal. The amounts paid to the City in excess of the approved amounts using the new tables would potentially need to be refunded to the utility companies. This could result in refunds, including interest, of approximately \$61,900 from the General Fund. Appeals are still being undertaken by taxing authorities and the matter is not expected to be settled in the next fiscal year. Therefore, the potential refund related to the governmental funds has been recorded as a long-term liability on the government-wide statement of net assets at June 30, 2004.

Note 13 - Contingencies

The Michigan Department of Environmental Quality (MDEQ) is currently requiring the City to upgrade its sewer system in order to meet certain mandated federal requirements on water purity. Based on the parameters communicated by MDEQ, the City engineers have estimated the range of costs to the City for this upgrade to approximate \$5 million to \$65 million. The County of Wayne is currently working on a regional approach for all Wayne County communities with similar requirements, which City management believes will significantly reduce the cost of the sewer system upgrade.

Note 13 - Contingencies (Continued)

The Downtown Development Authority and the City are defendants in litigation brought by Wayne Oakland contractors, which commenced on July 28, 2000 in the Wayne County Circuit Court. In that lawsuit, the plaintiff sought recovery of money damages arising out of a construction project within the City including road improvements that began in 1998. The plaintiff claimed the City breached and abandoned the contract by failing to allow the contract to begin on time with all easements in place, and that the underlying conditions were misrepresented to it causing it substantial cost overruns. In November 2002, the matter was tried before a Wayne County jury. The jury returned a verdict in the amount of \$12,000,000. The City strongly disagreed with the judgment and appealed the decision to the Michigan Court of Appeals. On December 14, 2004, the Michigan Court of Appeals unanimously affirmed the jury verdict. The affirmed verdict plus associated interest through December 28, 2004 totals approximately \$15,032,000 and the amount is not believed to be covered by any existing insurance contracts. The City is reviewing the Court of Appeals decision and is considering its alternatives, including the possibility of further appeal. The City has elected not to accrue a liability.

Note 14 - Subsequent Events

Subsequent to year end, the City issued \$5,385,000 in general obligation bonds with an interest rate ranging from 2.00 percent to 4.20 percent. The proceeds of these bonds were used to advance refund \$1,000,000 of outstanding Building Authority bonds and \$3,950,000 of outstanding Sewage Disposal System bonds with an interest rate ranging from 4.80 percent to 8.00 percent. The advance refunding will decrease total debt service payments over the next 14 years by approximately \$785,000, which represents an economic gain of approximately \$322,000.

Required Supplemental Information

City of Garden City, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Favorable (Unfavorable)
Fund Balance - Beginning of year	\$ 757,594	\$ 757,594	\$ 757,594	\$ -
Resources (Inflows)				
Property taxes	10,220,848	10,220,848	10,270,303	49,455
Licenses and permits:				
Business	64,000	64,000	41,151	(22,849)
Nonbusiness	249,400	249,400	314,489	65,089
Total licenses and permits	313,400	313,400	355,640	42,240
Federal sources	213,847	213,847	259,736	45,889
State sources	4,326,671	3,720,671	3,446,053	(274,618)
Charges for services	883,934	883,934	784,582	(99,352)
21st District Court	660,000	660,000	580,423	(79,577)
Interest and other:				
Interest and miscellaneous income	531,300	531,300	433,923	(97,377)
Proceeds from debt issuance	-	-	3,385,000	3,385,000
Charges to Enterprise Fund	140,000	140,000	325,000	185,000
Transfer in from Capital Projects Fund to pay down a portion of defeased debt	-	-	954,590	954,590
Charges to Perrin Drain Fund, Workers' Compensation Fund	830,000	830,000	887,875	57,875
Total interest and other	1,501,300	1,501,300	5,986,388	4,485,088
Total resources (inflows)	18,877,594	18,271,594	22,440,719	4,169,125
Charges to Appropriations (Outflows)				
General government:				
Mayor and Council	50,710	50,710	48,061	2,649
21st District Court	750,840	750,840	709,613	41,227
City administration	408,987	408,987	403,844	5,143
City Clerk/Treasurer	905,651	905,651	751,809	153,842
General office	4,694,111	4,444,111	4,684,903	(240,792)
Boards and commissions	107,050	107,050	76,673	30,377
Total general government	6,917,349	6,667,349	6,674,903	(7,554)
Public safety:				
Police department	4,460,563	4,460,563	4,407,070	53,493
Fire department	2,157,720	2,157,720	2,115,603	42,117
Total public safety	6,618,283	6,618,283	6,522,673	95,610
Public service:				
Building inspection	289,213	289,213	281,937	7,276
Department of public service	1,996,129	1,390,129	1,379,383	10,746
Total public service	2,285,342	1,679,342	1,661,320	18,022

City of Garden City, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Favorable (Unfavorable)
Charges to Appropriations (Outflows) (Continued)				
Culture and recreation - Parks and recreation	\$ 1,004,627	\$ 1,004,626	\$ 821,273	\$ 183,353
Defeasance of debt	-	-	4,400,000	(4,400,000)
Debt	1,294,400	1,294,400	1,254,507	39,893
Transfers to other funds	250,000	250,000	516,708	(266,708)
Total charges to appropriations (outflows)	<u>18,370,001</u>	<u>17,514,000</u>	<u>21,851,384</u>	<u>(4,337,384)</u>
Fund Balance - End of year	<u>\$ 507,593</u>	<u>\$ 757,594</u>	<u>\$ 589,335</u>	<u>\$ (168,259)</u>

City of Garden City, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Major Streets Fund Year Ended June 30, 2003

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Favorable (Unfavorable)
Fund Balance - Beginning of year	\$ 1,890,289	\$ 1,890,289	\$ 1,890,289	\$ -
Resources (Inflows)				
State sources	1,300,000	1,300,000	1,292,597	(7,403)
Interest and other	30,000	30,000	18,332	(11,668)
Total resources (inflows)	3,220,289	3,220,289	3,201,218	(19,071)
Charges to Appropriations (Outflows)				
Community maintenance, development, and other	430,000	430,000	351,537	78,463
Transfers to other funds	325,000	325,000	323,149	1,851
Total charges to appropriations (outflows)	755,000	755,000	674,686	80,314
Fund Balance - End of year	\$ 2,465,289	\$ 2,465,289	\$ 2,526,532	\$ 61,243

City of Garden City, Michigan

Required Supplemental Information Pension System Schedule of Funding Progress June 30, 2004

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
6/30/98	\$ 51,800,000	\$ 40,400,000	\$ (11,400,000)	128%	\$ 5,600,000	204%
6/30/99	56,400,000	43,100,000	(13,300,000)	131%	5,800,000	229%
6/30/00	61,000,000	45,900,000	(15,100,000)	133%	6,600,000	229%
6/30/01	63,900,000	48,900,000	(15,000,000)	131%	7,000,000	214%
6/30/02	64,200,000	50,900,000	(13,300,000)	126%	7,300,000	182%
6/30/03	61,200,000	54,000,000	(7,200,000)	113%	7,400,000	97%

The schedule of employer contributions is as follows:

Fiscal Year Ended	Annual Required Contribution*	Percentage Contributed
1996	\$ -	100.0
1997	-	100.0
1998	-	100.0
1999	-	100.0
2000	-	100.0
2001	-	100.0
2002	-	100.0
2003	-	100.0

* The required contribution is expressed to the City as a percentage of payroll.

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2002, the latest actuarial valuation date, follows:

Actuarial cost method	Entry age actuarial cost method
Amortization method	Level percent of payroll
Remaining amortization period	10 years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return*	7.5%
Projected salary increases*	5.0% - 9.0%
*Includes inflation at	4.5%
Postemployment cost of living adjustments	2%

City of Garden City, Michigan

Note to Required Supplemental Information

Note - Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds with the following exceptions:

- Some operating transfers have been included in the “revenue” and “expenditures” categories, rather than as “other financing sources (uses).”
- Reimbursements from other funds have been included in revenue, rather than as a reduction of expenditures.

The budget statements are presented on the same basis of accounting used in preparing the adopted budget. All annual appropriations lapse at fiscal year end.

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- On or before the first day of April, the City manager must submit a budget for the ensuing fiscal year to the City Council at a regular council meeting.
- Public hearings are conducted to obtain citizen comment.
- The budget must be adopted by ordinance on or before the twentieth day of May of the fiscal year currently ending.

The budget has been adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual results of operations to the General Fund budget and Major Special Revenue Funds’ budgets as adopted by the City Council is included in required supplemental information. This comparison includes expenditure budget overruns. A comparison of the actual results of operations to the nonmajor Special Revenue Funds’ budgets as adopted by the City Council is available at the Clerk’s office for inspection.

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the City incurred expenditures that were in excess of the amounts budgeted in the General Fund, as follows:

	Budget	Actual	Variance
General office	\$ 4,444,111	\$ 4,684,903	\$ (240,792)
Defeasance of debt	-	4,400,000	(4,400,000)
Transfers to other funds	250,000	516,708	(266,708)
Total	<u>\$ 4,694,111</u>	<u>\$ 9,601,611</u>	<u>\$ (4,907,500)</u>

Note - Budgetary Information (Continued)

The unfavorable general office expenditure variance in the General Fund was caused by unanticipated incinerator expenditures that became necessary during the year, as well as the City not budgeting for retiree health insurance.

The unfavorable defeasance of debt expenditure variance in the General Fund was due to the City not budgeting for the refunding of debt, as described in Note 7.

The unfavorable transfers to other funds variance in the General Fund was due to the City not budgeting for the additional transfer to the Retiree Health Care Fund.

Fund Deficits - The City has a deficit in the Community Development Block Grant Fund and the Rehabilitation Revolving Fund at June 30, 2004 due to revenue that will not be received within 60 days of year end. The receivable for these monies was recorded along with the corresponding deferred revenue at June 30, 2004. The receivable was fully paid subsequent to 60 days of year end.

Other Supplemental Information

City of Garden City, Michigan

	Special Revenue Funds								
	Local Streets	Library	911	Community Development Block Grant	Rehabilitation Revolving	Incinerator Improvements	Police Drug Confiscation	Franchise Peg Fees	Library 75th Anniversary
Assets									
Cash and investments	\$ 108,018	\$ 58,367	\$ 81,267	\$ 15,111	\$ 24,856	\$ 162,794	\$ 67,773	\$ 19,669	\$ 283
Receivables - Net	-	-	-	39,167	-	27,655	-	5,250	-
Due from other funds	-	-	-	-	5,786	-	-	-	-
Due from other governmental units	86,976	-	-	-	-	-	-	-	-
Total assets	\$ 194,994	\$ 58,367	\$ 81,267	\$ 54,278	\$ 30,642	\$ 190,449	\$ 67,773	\$ 24,919	\$ 283
Liabilities and Fund Balances (Deficits)									
Liabilities									
Accounts payable	\$ -	\$ 2,421	\$ -	\$ 5,989	\$ 6,774	\$ 1,244	\$ 21	\$ 90	\$ -
Accrued and other liabilities	-	4,961	-	-	-	-	-	-	-
Due to other funds	-	-	-	48,837	-	-	-	-	-
Deferred revenue	-	-	-	39,167	23,884	-	-	-	-
Total liabilities	-	7,382	-	93,993	30,658	1,244	21	90	-
Fund Balances (Deficits)									
Reserved	-	-	-	-	-	7,992	-	-	-
Unreserved	194,994	50,985	81,267	(39,715)	(16)	181,213	67,752	24,829	283
Total fund balances (deficits)	194,994	50,985	81,267	(39,715)	(16)	189,205	67,752	24,829	283
Total liabilities and fund balances (deficits)	\$ 194,994	\$ 58,367	\$ 81,267	\$ 54,278	\$ 30,642	\$ 190,449	\$ 67,773	\$ 24,919	\$ 283

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2004**

Debt Service Funds									
Retiree Health Care	Perrin Drain	Mid-Garden Road Improvements	Sidewalk Program #2	Sidewalk Program #3	Sidewalk Program #4	Mid-Lathers Road Improvements	North Mid- Lathers Road Improvements	North Garden Road Improvements	
\$ 561,562	\$ -	\$ 82,410	\$ 38,127	\$ 225	\$ 544	\$ 34,611	\$ -	\$ 58,215	
-	-	-	-	-	-	-	1,874	12,488	
-	-	-	-	-	-	-	-	-	
-	-	-	-	-	-	-	-	-	
<u>\$ 561,562</u>	<u>\$ -</u>	<u>\$ 82,410</u>	<u>\$ 38,127</u>	<u>\$ 225</u>	<u>\$ 544</u>	<u>\$ 34,611</u>	<u>\$ 1,874</u>	<u>\$ 70,703</u>	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
-	-	-	-	-	-	-	-	-	
-	-	-	-	-	-	-	235	-	
-	-	-	-	-	-	-	1,639	9,128	
-	-	-	-	-	-	-	1,874	9,128	
-	-	-	-	-	-	-	-	-	
<u>561,562</u>	<u>-</u>	<u>82,410</u>	<u>38,127</u>	<u>225</u>	<u>544</u>	<u>34,611</u>	<u>-</u>	<u>61,575</u>	
<u>561,562</u>	<u>-</u>	<u>82,410</u>	<u>38,127</u>	<u>225</u>	<u>544</u>	<u>34,611</u>	<u>-</u>	<u>61,575</u>	
<u>\$ 561,562</u>	<u>\$ -</u>	<u>\$ 82,410</u>	<u>\$ 38,127</u>	<u>\$ 225</u>	<u>\$ 544</u>	<u>\$ 34,611</u>	<u>\$ 1,874</u>	<u>\$ 70,703</u>	

City of Garden City, Michigan

	Debt Service Funds				Capital	
	South Lather Sewer Construction	Northwest Perrin	Capital Projects	Sidewalk Program #5a-6b	Sidewalk Sec- I	South Venoy
Assets						
Cash and investments	\$ 294,371	\$ 42,108	\$ 161,412	\$ 23,160	\$ 30,555	\$ 96,515
Receivables - Net	15,390	13,599	-	-	14	25,172
Due from other funds	-	-	40,473	-	-	-
Due from other governmental units	-	-	-	-	-	-
Total assets	<u>\$ 309,761</u>	<u>\$ 55,707</u>	<u>\$ 201,885</u>	<u>\$ 23,160</u>	<u>\$ 30,569</u>	<u>\$ 121,687</u>
Liabilities and Fund Balances (Deficits)						
Liabilities						
Accounts payable	\$ -	\$ -	\$ 300	\$ -	\$ -	\$ -
Accrued and other liabilities	-	-	-	-	-	-
Due to other funds	-	-	-	-	-	-
Deferred revenue	14,700	11,800	-	-	14	21,932
Total liabilities	14,700	11,800	300	-	14	21,932
Fund Balances (Deficits)						
Reserved	-	-	-	-	-	-
Unreserved	295,061	43,907	201,585	23,160	30,555	99,755
Total fund balances (deficits)	295,061	43,907	201,585	23,160	30,555	99,755
Total liabilities and fund balances (deficits)	<u>\$ 309,761</u>	<u>\$ 55,707</u>	<u>\$ 201,885</u>	<u>\$ 23,160</u>	<u>\$ 30,569</u>	<u>\$ 121,687</u>

Other Supplemental Information
Combining Balance Sheet (Continued)
Nonmajor Governmental Funds
June 30, 2004

Projects Funds									
Whitby Road Improvements	4203 Brandt Avenue Drain	District Court Building Fund	Burnly Paving	Chester Road Improvement	Mid-Town Drainage	Mid-Town West Paving	Mid-Town East Paving	Mid-Town Concrete	
\$ 29,739	\$ 13,472	\$ 181,129	\$ 16,464	\$ 18,856	\$ 878,702	\$ 1,076,053	\$ 662,746	\$ 5,970	
379	462	2,412	2,079	643	463,443	224,966	198,835	1,344	
-	-	-	-	-	-	-	-	-	
\$ 30,118	\$ 13,934	\$ 183,541	\$ 18,543	\$ 19,499	\$ 1,342,145	\$ 1,301,019	\$ 861,581	\$ 7,314	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
-	-	-	-	-	-	-	-	-	
-	-	-	-	-	-	-	-	-	
377	462	-	1,959	595	401,824	218,676	192,596	1,249	
377	462	-	1,959	595	401,824	218,676	192,596	1,249	
-	-	-	-	-	-	-	-	-	
29,741	13,472	183,541	16,584	18,904	940,321	1,082,343	668,985	6,065	
29,741	13,472	183,541	16,584	18,904	940,321	1,082,343	668,985	6,065	
\$ 30,118	\$ 13,934	\$ 183,541	\$ 18,543	\$ 19,499	\$ 1,342,145	\$ 1,301,019	\$ 861,581	\$ 7,314	

City of Garden City, Michigan

Other Supplemental Information Combining Balance Sheet (Continued) Nonmajor Governmental Funds June 30, 2004

	Capital Projects Funds							
	Central Perrin	Sidewalk 2a	Capital Projects Construction	4206 Pardo-Hartel	Special Assessment Bond Fund	Birchlaw & Beechwood Paving	John Hawk South Lathers Reconstruction	Total Nonmajor Governmental Funds
Assets								
Cash and investments	\$ 157,492	\$ 71,189	\$ -	\$ 111,064	\$ 1,915,239	\$ 14,241	\$ 93,856	\$ 7,208,165
Receivables - Net	61,453	-	-	31,832	-	13,642	165,456	1,307,555
Due from other funds	-	-	-	-	-	-	-	46,259
Due from other governmental units	-	-	-	-	-	-	-	86,976
Total assets	<u>\$ 218,945</u>	<u>\$ 71,189</u>	<u>\$ -</u>	<u>\$ 142,896</u>	<u>\$ 1,915,239</u>	<u>\$ 27,883</u>	<u>\$ 259,312</u>	<u>\$ 8,648,955</u>
Liabilities and Fund Balances (Deficits)								
Liabilities								
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 16,839
Accrued and other liabilities	-	-	-	-	-	-	-	4,961
Due to other funds	-	-	-	-	-	14,202	40,238	103,512
Deferred revenue	58,586	(2,859)	-	31,511	-	13,156	149,375	1,189,771
Total liabilities	58,586	(2,859)	-	31,511	-	27,358	189,613	1,315,083
Fund Balances (Deficits)								
Reserved	-	-	-	-	1,915,239	-	-	1,923,231
Unreserved	160,359	74,048	-	111,385	-	525	69,699	5,410,641
Total fund balances (deficits)	160,359	74,048	-	111,385	1,915,239	525	69,699	7,333,872
Total liabilities and fund balances (deficits)	<u>\$ 218,945</u>	<u>\$ 71,189</u>	<u>\$ -</u>	<u>\$ 142,896</u>	<u>\$ 1,915,239</u>	<u>\$ 27,883</u>	<u>\$ 259,312</u>	<u>\$ 8,648,955</u>

City of Garden City, Michigan

	Special Revenue						
	Local Streets	Library	911	Community Development Block Grant	Rehabilitation Revolving	Incinerator Improvements	Police Drug Confiscation
Revenue							
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 495,650	\$ -
Federal sources	-	-	-	113,890	18,696	-	-
State sources	511,771	30,084	-	-	-	-	-
Charges for services	77,204	-	-	-	-	-	-
Special assessments	-	-	-	-	-	-	-
Interest and other	-	52,119	99,976	-	-	2,644	14,307
Total revenue	588,975	82,203	99,976	113,890	18,696	498,294	14,307
Expenditures							
Current - Community maintenance, development, and other	573,798	296,688	-	146,246	18,712	-	32,917
Debt service	143,332	-	-	-	-	432,276	-
Total expenditures	717,130	296,688	-	146,246	18,712	432,276	32,917
Excess of Revenue Over (Under) Expenditures	(128,155)	(214,485)	99,976	(32,356)	(16)	66,018	(18,610)
Other Financing Sources (Uses)							
Transfers in	323,149	200,000	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-
Total other financing sources (uses)	323,149	200,000	-	-	-	-	-
Net Change in Fund Balances	194,994	(14,485)	99,976	(32,356)	(16)	66,018	(18,610)
Fund Balances (Deficit) - Beginning of year	-	65,470	(18,709)	(7,359)	-	123,187	86,362
Fund Balances (Deficit) - End of year	\$ 194,994	\$ 50,985	\$ 81,267	\$ (39,715)	\$ (16)	\$ 189,205	\$ 67,752

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and Changes
in Fund Balances - Nonmajor Governmental Funds
Year Ended June 30, 2004

Funds				Debt Service Funds				
Franchise Peg Fees	Library 75th Anniversary	Retiree Health Care	Perrin Drain	Mid-Garden Road Improvements	Sidewalk Program #2	Sidewalk Program #3	Sidewalk Program #4	Mid-Lathers Road Improvements
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	1	-	-	-	1,819
<u>17,530</u>	<u>283</u>	<u>3,648</u>	<u>2,896</u>	<u>779</u>	<u>348</u>	<u>10</u>	<u>-</u>	<u>332</u>
17,530	283	3,648	2,896	780	348	10	-	2,151
1,164	-	-	-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,066</u>	<u>1,647</u>	<u>5,055</u>	<u>3,618</u>	<u>12,408</u>
<u>1,164</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,066</u>	<u>1,647</u>	<u>5,055</u>	<u>3,618</u>	<u>12,408</u>
16,366	283	3,648	2,896	(16,286)	(1,299)	(5,045)	(3,618)	(10,257)
-	-	306,061	-	-	-	2,000	4,000	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>(487,875)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	-	306,061	(487,875)	-	-	2,000	4,000	-
16,366	283	309,709	(484,979)	(16,286)	(1,299)	(3,045)	382	(10,257)
<u>8,463</u>	<u>-</u>	<u>251,853</u>	<u>484,979</u>	<u>98,696</u>	<u>39,426</u>	<u>3,270</u>	<u>162</u>	<u>44,868</u>
<u>\$ 24,829</u>	<u>\$ 283</u>	<u>\$ 561,562</u>	<u>\$ -</u>	<u>\$ 82,410</u>	<u>\$ 38,127</u>	<u>\$ 225</u>	<u>\$ 544</u>	<u>\$ 34,611</u>

City of Garden City, Michigan

	Debt Service Funds				Capital Projects		
	North Mid- Lathers Road Improvements	North Garden Road Improvements	South Lather Sewer Construction	Northwest Perrin	Capital Projects	Sidewalk Program #5a- 6b	Sidewalk Sec- I
Revenue							
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Federal sources	-	-	-	-	-	-	-
State sources	-	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-
Special assessments	2,380	15,264	10,793	7,125	-	(1)	59
Interest and other	-	498	2,698	380	2,044	213	273
Total revenue	2,380	15,762	13,491	7,505	2,044	212	332
Expenditures							
Current - Community maintenance, development, and other	-	-	-	-	104,135	-	-
Debt service	7,542	12,727	41,098	10,571	-	3,916	-
Total expenditures	7,542	12,727	41,098	10,571	104,135	3,916	-
Excess of Revenue Over (Under) Expenditures	(5,162)	3,035	(27,607)	(3,066)	(102,091)	(3,704)	332
Other Financing Sources (Uses)							
Transfers in	4,647	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-
Total other financing sources (uses)	4,647	-	-	-	-	-	-
Net Change in Fund Balances	(515)	3,035	(27,607)	(3,066)	(102,091)	(3,704)	332
Fund Balances (Deficit) - Beginning of year	515	58,540	322,668	46,973	303,676	26,864	30,223
Fund Balances (Deficit) - End of year	\$ -	\$ 61,575	\$ 295,061	\$ 43,907	\$ 201,585	\$ 23,160	\$ 30,555

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and Changes
in Fund Balances - Nonmajor Governmental Funds (Continued)
Year Ended June 30, 2004

Funds

South Venoy	Whitby Road Improvements	4203 Brandt Avenue Drain	District Court Building Fund	Burnly Paving	Mid-Town Drainage	Chester Road Improvement
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
9,938	85	922	-	1,093	156,916	770
841	265	117	33,519	161	8,577	167
10,779	350	1,039	33,519	1,254	165,493	937
-	-	-	-	-	-	-
-	-	-	-	2,768	205,383	-
-	-	-	-	2,768	205,383	-
10,779	350	1,039	33,519	(1,514)	(39,890)	937
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
10,779	350	1,039	33,519	(1,514)	(39,890)	937
88,976	29,391	12,433	150,022	18,098	980,211	17,967
\$ 99,755	\$ 29,741	\$ 13,472	\$ 183,541	\$ 16,584	\$ 940,321	\$ 18,904

City of Garden City, Michigan

	Capital Projects							
	Mid-Town West Paving	Mid-Town East Paving	Mid-Town Concrete	Central Perrin	Sidewalk 2a	Capital Projects Construction	4206 Pardo- Hartel	Special Assessment Bond Fund
Revenue								
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Federal sources	-	-	-	-	-	-	-	-
State sources	-	-	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-	-
Special assessments	78,207	60,532	964	16,983	21,864	-	3,372	-
Interest and other	10,032	6,250	71	1,612	525	4,592	981	17,122
Total revenue	88,239	66,782	1,035	18,595	22,389	4,592	4,353	17,122
Expenditures								
Current - Community maintenance, development, and other	-	-	-	-	1	-	-	-
Debt service	121,705	79,231	3,267	41,431	-	-	-	-
Total expenditures	121,705	79,231	3,267	41,431	1	-	-	-
Excess of Revenue Over (Under) Expenditures	(33,466)	(12,449)	(2,232)	(22,836)	22,388	4,592	4,353	17,122
Other Financing Sources (Uses)								
Transfers in	-	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	(954,590)	-	-
Total other financing sources (uses)	-	-	-	-	-	(954,590)	-	-
Net Change in Fund Balances	(33,466)	(12,449)	(2,232)	(22,836)	22,388	(949,998)	4,353	17,122
Fund Balances (Deficit) - Beginning of year	1,115,809	681,434	8,297	183,195	51,660	949,998	107,032	1,898,117
Fund Balances (Deficit) - End of year	<u>\$ 1,082,343</u>	<u>\$ 668,985</u>	<u>\$ 6,065</u>	<u>\$ 160,359</u>	<u>\$ 74,048</u>	<u>\$ -</u>	<u>\$ 111,385</u>	<u>\$ 1,915,239</u>

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and Changes
in Fund Balances - Nonmajor Governmental Funds (Continued)
Year Ended June 30, 2004

Funds		
Birchlaw & Beechwood Paving	John Hawk South Lathers Reconstruction	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ 495,650
-	-	132,586
-	-	541,855
-	-	77,204
14,360	96,452	499,898
94	-	285,904
14,454	96,452	2,033,097
-	-	1,173,661
-	(495)	1,144,546
-	(495)	2,318,207
14,454	96,947	(285,110)
-	-	839,857
-	-	(1,442,465)
-	-	(602,608)
14,454	96,947	(887,718)
(13,929)	(27,248)	8,221,590
\$ 525	\$ 69,699	\$ 7,333,872

City of Garden City, Michigan

Other Supplemental Information Balance Sheet Modified Accrual Basis Downtown Development Authority June 30, 2004

	<u>Component Unit</u> Downtown Development Authority
Assets	
Cash and investments	\$ 1,486,764
Receivables - Net	<u>592,232</u>
Total assets	<u><u>\$ 2,078,996</u></u>
Liabilities and Equity	
Liabilities	
Accounts payable	\$ 27,515
Accrued and other liabilities	1,280
Deferred revenue	<u>592,232</u>
Total liabilities	621,027
Equity - Fund balance - Unreserved, undesignated	<u>1,457,969</u>
Total liabilities and fund equity	<u><u>\$ 2,078,996</u></u>

City of Garden City, Michigan

Other Supplemental Information Statement of Revenue, Expenditures, and Changes in Fund Balance Modified Accrual Basis Downtown Development Authority Year Ended June 30, 2004

	Component Unit
	Downtown Development Authority
Revenue	
Property taxes	\$ 356,613
Interest and other	<u>11,800</u>
Total revenue	368,413
Expenditures	
Community maintenance, development, and other	154,586
Debt service	<u>152,883</u>
Total expenditures	<u>307,469</u>
Excess of Expenditures Over Revenue	60,944
Fund Balance - Beginning of year	<u>1,397,025</u>
Fund Balance - End of year	<u><u>\$ 1,457,969</u></u>

City of Garden City, Michigan

Schedule of Indebtedness Schedule of Governmental Activities General Obligations Bonds Year Ended June 30, 2004

Purpose: 1993 Road and Drain Improvements*
 Date of issue: May 1, 1993
 Amount of issue: \$1,700,000
 Payee: Smith Barney, Harris Upham & Co.

Fiscal Year	Maturity Amount	Interest		Total
		Rate (Percent)	Amount	
2004/2005	\$ 150,000	5.10	\$ 30,075	\$ 180,075
2005/2006	-	5.25	-	-
2006/2007	-	5.25	-	-
2007/2008	-	5.25	-	-
Total	<u>\$ 150,000</u>		<u>\$ 30,075</u>	<u>\$ 180,075</u>

* During 2004, the City defeased a portion of its outstanding bonds. Accordingly, the City's share has been removed from the City's total debt obligation at June 30, 2004.

City of Garden City, Michigan

Schedule of Indebtedness Schedule of Governmental Activities Limited Tax Bonds (Continued) Year Ended June 30, 2004

Purpose: 2004 General Obligation Limited Tax Refunding Bonds
Date of issue: June 2, 2004
Amount of issue: \$3,385,000
Payee: Cede & Co.

Fiscal Year	Maturity Amount	Interest		Total
		Rate (Percent)	Amount	
2004/2005	\$ 230,000	3.00	\$ 116,381	\$ 346,381
2005/2006	355,000	3.00	120,448	475,448
2006/2007	425,000	3.50	109,798	534,798
2007/2008	415,000	3.50	94,922	509,922
2008/2009	235,000	3.75	80,397	315,397
2009/2010	280,000	3.75	71,585	351,585
2010/2011	275,000	4.00	61,085	336,085
2011/2012	265,000	4.00	50,085	315,085
2012/2013	310,000	4.10	39,485	349,485
2013/2014	300,000	4.50	26,775	326,775
2014/2015	<u>295,000</u>	4.50	<u>13,275</u>	<u>308,275</u>
Total	<u>\$ 3,385,000</u>		<u>\$ 784,236</u>	<u>\$ 4,169,236</u>

Purpose: 1991 Road and Drain Improvements
Date of issue: May 1, 1991
Amount of issue: \$2,885,000
Payee: Mekper Securities, Chicago, Illinois

Fiscal Year	Maturity Amount	Interest		Total
		Rate (Percent)	Amount	
2004/2005	\$ 200,000	6.11	\$ 14,150	\$ 214,150
2005/2006	<u>200,000</u>	6.11	<u>3,875</u>	<u>203,875</u>
Total	<u>\$ 400,000</u>	*	<u>\$ 18,025</u>	<u>\$ 418,025</u>

* Remaining principal maturity consists of \$130,000 of 1991 Special Assessment Bonds (LTGO) and \$270,000 of 1991 General Obligation Limited Tax Bonds.

City of Garden City, Michigan

Schedule of Indebtedness Schedule of Governmental Activities Special Assessment Bonds (Continued) Year Ended June 30, 2004

Purpose: 1993 Road and Sidewalk Improvements
Date of issue: May 1, 1993
Amount of issue: \$190,000
Payee: Smith Barney, Harris Upham & Co.

Fiscal Year	Maturity Amount	Interest		Total
		Rate (Percent)	Amount	
2004/2005	\$ 25,000	5.10	\$ 4,050	\$ 29,050
2005/2006	25,000	5.25	2,756	27,756
2006/2007	20,000	5.25	1,575	21,575
2007/2008	20,000	5.25	525	20,525
Total	\$ 90,000		\$ 8,906	\$ 98,906

Purpose: 1997 Special Assessments and Capital Improvements*
Date of issue: June 16, 1997
Amount of issue: \$9,935,000

Fiscal Year	Total Maturity Amount	Maturity Allocation		Interest Rate (Percent)	Total Interest Expense	Interest Allocation		Total Principal and Interest
		Debt Service Funds	General Fund			Debt Service Funds	General Fund	
2004/2005	\$ 300,000	\$ 300,000	\$ -	5.500	\$ 139,635	\$ 139,635	\$ -	\$ 439,635
2005/2006	300,000	300,000	-	4.750	123,135	123,135	-	423,135
2006/2007	300,000	300,000	-	4.750	108,885	108,885	-	408,885
2007/2008	300,000	300,000	-	4.750	94,635	94,635	-	394,635
2008/2009	285,000	285,000	-	4.850	80,385	80,385	-	365,385
2009/2010	250,000	250,000	-	4.875	66,563	66,563	-	316,563
2010/2011	250,000	250,000	-	4.875	54,375	54,375	-	304,375
2011/2012	250,000	250,000	-	4.875	42,188	42,188	-	292,188
2012/2013	225,000	225,000	-	5.000	30,000	30,000	-	255,000
2013/2014	225,000	225,000	-	5.000	18,750	18,750	-	243,750
2014/2015	150,000	150,000	-	5.000	7,500	7,500	-	157,500
Total	\$ 2,835,000	\$ 2,835,000	\$ -		\$ 766,051	\$ 766,051	\$ -	\$ 3,601,051

* During 2004, the City defeased the General Fund portion of the outstanding bonds. Accordingly, the City's General Fund portion has been removed from the City's total debt obligations at June 30, 2004.

City of Garden City, Michigan

Schedule of Indebtedness Schedule of Governmental Activities Obligation Bonds (Continued) Year Ended June 30, 2004

Purpose: Police Facility Construction
 Date of issue: August 28, 1991
 Amount of issue: \$4,150,000
 Payee: Griffin, Kubik, Stephens & Thompson, Inc., Clayton Brown
 and Associates, Inc.
 (18 payments have been called early)

Fiscal Year	Maturity Amount	Interest		Total
		Rate (Percent)	Amount	
2018/2019	\$ 250,000	6.000	\$ 52,500	\$ 302,500
2019/2020	250,000	6.000	37,500	287,500
2020/2021	250,000	6.000	22,500	272,500
2021/2022	<u>250,000</u>	6.000	<u>7,500</u>	<u>257,500</u>
Total	<u>\$ 1,000,000</u>		<u>\$ 120,000</u>	<u>\$ 1,120,000</u>

City of Garden City, Michigan

Schedule of Indebtedness Schedule of Governmental Activities Obligation Bonds (Continued) Year Ended June 30, 2004

Purpose: Police Facility Construction - Refinancing
Date of issue: September 2, 1994
Amount of issue: \$3,115,000
Payee: Hutchinson, Shooley, Erley & Co.

Fiscal Year	Maturity Amount	Interest		Total
		Rate (Percent)	Amount	
2004/2005	\$ 120,000	5.400	\$ 143,193	\$ 263,193
2005/2006	120,000	5.500	136,653	256,653
2006/2007	145,000	5.600	129,293	274,293
2007/2008	165,000	5.700	120,530	285,530
2008/2009	165,000	5.800	111,043	276,043
2009/2010	165,000	5.900	101,390	266,390
2010/2011	165,000	5.950	91,614	256,614
2011/2012	160,000	6.000	81,905	241,905
2012/2013	210,000	6.050	70,753	280,753
2013/2014	210,000	5.750	58,363	268,363
2014/2015	205,000	5.750	46,431	251,431
2015/2016	205,000	5.750	34,644	239,644
2016/2017	250,000	5.750	21,563	271,563
2017/2018	250,000	5.750	7,188	257,188
Total	<u>\$ 2,535,000</u>		<u>\$ 1,154,563</u>	<u>\$ 3,689,563</u>

City of Garden City, Michigan

Schedule of Indebtedness Schedule of Governmental and Business Type Refunding Bonds Year Ended June 30, 2004

Purpose: 2001 Sewage Disposal System Refunding Bonds
Date of issue: June 7, 2001
Amount of issue: \$9,730,000
Payee: Bank One, Detroit, MI

Fiscal Year	Maturity Allocation			Interest Rate (Percent)	Interest Allocation			Total Principal and Interest
	Total Maturity Amount	General Fund	Enterprise Fund		Total Interest Expense	General Fund	Enterprise Fund	
2004/2005	\$ 650,000	\$ 189,598	\$ 460,402	4.000	\$ 393,940	\$ 114,908	\$ 279,032	\$ 1,043,940
2005/2006	645,000	188,139	456,861	4.000	368,040	107,353	260,687	1,013,040
2006/2007	665,000	193,973	471,027	4.000	341,840	99,711	242,129	1,006,840
2007/2008	780,000	227,517	552,483	4.050	312,745	91,224	221,521	1,092,745
2008/2009	770,000	224,601	545,399	4.200	280,780	81,900	198,880	1,050,780
2009/2010	790,000	230,434	559,566	4.500	246,835	71,999	174,836	1,036,835
2010/2011	905,000	263,979	641,021	4.500	208,698	60,875	147,823	1,113,698
2011/2012	760,000	221,684	538,316	4.750	170,285	49,670	120,615	930,285
2012/2013	850,000	247,936	602,064	4.750	132,047	38,517	93,530	982,047
2013/2014	870,000	253,769	616,231	4.750	91,198	26,601	64,597	961,198
2014/2015	745,000	217,308	527,692	4.700	53,027	15,467	37,560	798,027
2015/2016	739,999	215,847	524,152	4.800	17,760	5,180	12,580	757,759
Total	<u>\$ 9,169,999</u>	<u>\$ 2,674,785</u>	<u>\$ 6,495,214</u>		<u>\$ 2,617,195</u>	<u>\$ 763,405</u>	<u>\$ 1,853,790</u>	<u>\$ 11,787,194</u>

City of Garden City, Michigan

Schedule of Indebtedness Schedule of Business Type and Component Unit Developmental Bonds Year Ended June 30, 2004

Purpose: 1998 Development Bonds
Date of issue: June 1, 1998
Amount of issue: \$3,000,000
Payee: Bank One, Detroit, MI

Fiscal Year	Total Maturity Amount	Maturity Allocation		Interest Rate (Percent)	Total Interest Expense	Interest Allocation		Total
		Component Unit (DDA)	Enterprise Fund			Component Unit (DDA)	Enterprise Fund	
2004/2005	\$ 100,000	\$ 82,092	\$ 17,908	5.75	\$ 131,450	\$ 107,911	\$ 23,539	\$ 231,450
2005/2006	100,000	82,092	17,908	4.25	126,450	103,806	22,644	226,450
2006/2007	100,000	82,092	17,908	4.30	122,175	100,297	21,878	222,175
2007/2008	150,000	123,139	26,861	4.35	116,762	95,853	20,909	266,762
2008/2009	150,000	123,139	26,861	4.40	110,200	90,466	19,734	260,200
2009/2010	150,000	123,139	26,861	4.50	103,523	84,984	18,539	253,523
2010/2011	200,000	164,185	35,815	4.60	95,550	78,439	17,111	295,550
2011/2012	200,000	164,185	35,815	4.70	86,250	70,805	15,445	286,250
2012/2013	200,000	164,185	35,815	4.80	76,750	63,006	13,744	276,750
2013/2014	200,000	164,185	35,815	4.85	67,100	55,084	12,016	267,100
2014/2015	250,000	205,231	44,769	5.00	56,125	46,074	10,051	306,125
2015/2016	250,000	205,231	44,769	5.00	43,750	35,915	7,835	293,750
2016/2017	250,000	205,231	44,769	5.00	31,250	25,654	5,596	281,250
2017/2018	250,000	205,231	44,769	5.00	18,750	15,392	3,358	268,750
2018/2019	249,908	205,231	44,677	5.00	6,250	5,131	1,119	256,158
Total	<u>\$ 2,799,908</u>	<u>\$ 2,298,588</u>	<u>\$ 501,320</u>		<u>\$ 1,192,335</u>	<u>\$ 978,817</u>	<u>\$ 213,518</u>	<u>\$ 3,992,243</u>

City of Garden City, Michigan

Schedule of Indebtedness Schedule of Business Type Disposal System Bonds Year Ended June 30, 2004

Purpose: Sewage Disposal System Bonds
Date of Issue: June 1, 1996
Amount of Issue: \$6,000,000

Fiscal Year	Maturity Amount	Interest		Total
		Rate (Percent)	Amount	
2004/2005	\$ 250,000	5.250	\$ 252,125	\$ 502,125
2005/2006	250,000	5.250	239,188	489,188
2006/2007	300,000	5.375	224,750	524,750
2007/2008	300,000	5.500	208,812	508,812
2008/2009	350,000	5.500	191,125	541,125
2009/2010	375,000	5.500	171,188	546,188
2010/2011	400,000	5.500	149,875	549,875
2011/2012	450,000	5.500	126,500	576,500
2012/2013	450,000	5.500	101,750	551,750
2013/2014	500,000	5.500	75,625	575,625
2014/2015	550,000	5.500	46,750	596,750
2015/2016	<u>575,000</u>	5.500	<u>15,813</u>	<u>590,813</u>
Total	<u>\$ 4,750,000</u>		<u>\$ 1,803,501</u>	<u>\$ 6,553,501</u>

State Revolving Fund Debt* **\$ 1,344,933**

* This represents the remaining amount due to the Michigan Municipal Bond Authority with interest charged at 2 percent.

October 8, 2004

Honorable Mayor and Members
of the City Council
City of Garden City
6000 Middlebelt Road
Garden City, MI 48035

Dear Mayor and Council Members:

We recently completed our audit of the financial statements of the City of Garden City, Michigan for the year ended June 30, 2004. In addition to our audit report, we offer the following comments and recommendations for your consideration.

FINANCIAL RESULTS

For the year ended June 30, 2004, the City's General Fund fund balance decreased by approximately \$169,000. Overall, revenues were constant with the prior year. The City's expenditures decreased approximately 3% from 2003 to 2004. The City's total revenue remained approximately at the same level as the prior year despite the significant impact of decreasing state shared revenue, due to increases in other revenue areas including certain non-recurring sources such as penalties, interest, and administration fees associated with property tax collections. The City was able to offset continuing increases in employee and post retirement healthcare costs through responsible expenditure control, proper allocation of administrative costs to benefiting funds, and a decrease in debt service payments due to the defeasance of debt during the current year. These cost cutting measures served to reduce the General Fund operating loss from approximately <\$1 million> for the year ending June 30, 2003 to approximately <\$.3 million> for the year ending June 30, 2004.

We wish to compliment the City Council, as well as department heads and staff, for their focused attention on sound budgeting practices and prudent financial management during this difficult economic period, including managing the impact of significant reductions in funding from the State of Michigan. Similar to other communities, the City will continue to face financial challenges in its 2005 fiscal year and beyond. As discussed later in this communication in the State Shared Revenue and Property Assessment Cap comments, both the State's revenue shortfall and the limited growth in existing properties due to Proposal A will continue to have a negative impact on General Fund revenues. The City should continue to develop and update multi-year operational and capital plans using alternative scenarios the City could expect to incur. By preparing plans under different scenarios, the City will be better equipped to respond to expected and unexpected short-term and long-term financial constraints.

STATE SHARED REVENUE

State shared revenue accounts for approximately 21% of the City's total General Fund revenue. Because of slower than anticipated growth in the State's sales tax collections (the sole source of revenue sharing payments to local units of government) and the State's budget problems which have resulted in additional appropriation reductions to the revenue sharing line item in the State's budget, revenue sharing payments for the last several years have been lower than anticipated.

Although overall sales tax revenue in Michigan would support an increase to total state shared revenue payments, the State's budget situation remains troublesome at best. As you are probably aware, the Governor's budget for the State's 2004/2005 fiscal year contains a provision to not pay counties statutory revenue sharing. Instead, beginning in 2005, the counties will change their property tax levy date for their operating millage from December to July. A portion of the additional funds generated from the early property tax levy will be used by the counties over a multiple year period to replace statutory revenue sharing that will not be paid by the State. The plan calls for the return of statutory revenue sharing for the counties when their restricted monies from the early levy run out. A key part to this plan allows the State to hold revenue sharing payments to cities, villages and townships for the State's 2004/2005 fiscal year at the prior year levels. This plan was recently approved by the Michigan legislature and signed by the Governor.

It is generally acknowledged that the State's budget woes will continue for several more years. The Governor recently announced that another \$500 million shortfall exists for the State's 2005/2006 fiscal year budget (the State's 2005/2006 fiscal year budget will be introduced by the Governor in early 2005). Also, during October 2004, the Governor announced that her administration may introduce a significant tax restructuring proposal shortly. Specific details of the proposal have not been formally announced and the impact on significant revenue sources to local governments, such as personal property taxes and revenue sharing, is not known. As a result of the continuing uncertainty with the State's budget situation and other potential developments with changes to the State's tax structure, we continue to urge the City to be very conservative in its estimation of state shared revenue as this line item in the State's budget remains vulnerable.

The table below details actual state shared revenue for the City since fiscal year 2001 in comparison to state shared revenue if the revenue payments would have increased at the rate of inflation. In addition, the table details the cumulative forgone revenue the City has experienced by not receiving state shared revenue payments that kept up with the annual increases in inflation since 2001

STATE SHARED REVENUE (CONTINUED)

<u>Fiscal Year Ending June 30</u>	<u>Actual Revenue Sharing</u>	<u>Revenue Sharing if City Received Inflationary Increases</u>	<u>Cumulative Lost Revenue Sharing Payments</u>
2001	\$4,060,167	\$4,060,167	
2002	\$3,932,669	\$4,190,092	\$257,423
2003	\$3,769,067	\$4,324,175	\$812,531
2004	\$3,387,460	\$4,389,037	\$1,814,108
2005 – Estimate	\$3,387,460	\$4,489,985	\$2,916,633

We will continue to update the City as developments occur.

INTERNAL CONTROL AND FRAUD PREVENTION

Designing and maintaining a sound system of internal controls over assets, as well as fraud prevention and detection, are on the forefront in today's accounting environment. As part of our audit of the City's 2004 financial statements, we performed additional procedures as required by Statement on Auditing Standards No. 99, *Consideration of Fraud in a Financial Statement Audit* (SAS 99). While SAS 99 does not change the focus of the financial statement audit to a "fraud audit," the new standard incorporates a change in mindset for auditors to search for and identify significant fraud risk factors. SAS 99 requires auditors to perform specific procedures to search for significant fraud risk factors, including inquiries with members of the City Council, administration, and other employees throughout the City; a retrospective review of accounting estimates; a detailed review of all journal entries; and other related procedures.

The Council should be pleased to note that the extra inquiries and testing that were required did not reveal any material problem not already addressed by the City.

During the additional procedures, we noted that the City is competent when preparing monthly bank reconciliations, however, it should further enhance the monthly reconciliation process by ensuring that all bank reconciliations are done timely. All bank reconciliations appear to have been properly completed, however, improved timeliness of the bank reconciliation is an important internal control aspect for the reconciliation process to work effectively.

INTERNAL CONTROL AND FRAUD PREVENTION (continued)

Additionally, we noted that within the payroll department, there appeared to be a lack of proper segregation of duties during fiscal year 2003/2004. One individual was responsible for maintaining all payroll data, check preparation, check printing, check disbursement, and had access to the check signing machine. In addition, it was also noted that an additional three individuals had available access to the check signing machine. Historically, the City has always attempted to establish a proper separation of duties in order to enhance internal controls. For example, currently, an individual from another department checks all employees hours to timesheets and payroll checks before checks are handed out. We would like to commend the City for taking steps to try and establish proper segregation of duties and encourage the City to further enhance its payroll controls by requiring that all checks be reviewed by management prior to disbursement.

PROPERTY ASSESSMENT CAP

As you recall, Proposal A limits the growth in taxable value to the lesser of inflation or 5 percent. The inflation factor for this calculation is published by the State Tax Commission and is:

2004	2.3%	1998	2.7%
2003	1.5%	1997	2.8%
2002	3.2%	1996	2.8%
2001	3.2%	1995	2.6%
2000	1.9%	1994	3.0%
1999	1.6%		

The 2003 inflation factor was used for property taxes levied in the City's fiscal year ended June 30, 2004. Property taxes are the City's largest source of General Fund revenue. However, as indicated above, growth in existing property can be significantly limited due to Proposal A. This factor should be considered when the City is performing long-term financial planning.

Also, as you recall, the Headlee Amendment to the Michigan Constitution limits the amount of taxes that can be levied by the City. In general terms, if growth on the City's existing property tax base exceeds inflation for a particular year, the Headlee Amendment requires the City to "roll back" its property tax rate to inflation. Prior to the passage of Proposal A in 1994, during years when the growth on the City's existing property tax base was less than inflation, the Headlee Amendment allowed the City to "roll up" its property tax rate and recover from years when the property tax rate was "rolled back." However, subsequent to the passage of Proposal

A and as a result of changes made to the State's General Property Tax Act, the City is no longer allowed to "roll up" its property tax rate in years when growth on its existing tax base is less than inflation.

For the year ended June 30, 2004, the City's Headlee maximum property tax rate for its operating levy was 14.2031 mills even though City Charter would allow the City to levy 18.0 mills for operations. Because of changes made to the General Property Tax Act in 1994, this reduction in millage rate is permanent absent a Headlee override vote. Additionally, as demonstrated by a recent study published by the Michigan Municipal League (with the participation of the Michigan Townships Association and the Michigan Association of Counties), due to definitional changes made to the General Property Tax Act in 1994, the treatment of uncapped values or the "pop up" amount when a property is transferred or sold (as growth on existing property subject to the Headlee rollback calculation), the downward pressure on millage rates will continue particularly given the significant gap that now exists between taxable value and state equalized value..

OTHER ACCOUNTING RECOMMENDATIONS

WATER AND SEWER FUND

As mentioned in the prior year, we noted that reconciliations were not performed for water and sewer fund customer accounts receivable. Procedures which reconcile amounts from the general ledger to subsidiary ledgers or supporting documentation should be performed on a monthly basis to ensure accuracy in reporting and to maintain adequate controls.

GRANT REIMBURSEMENTS

During the current year audit testing, it was noted that many of the grant qualifying expenditures were not reimbursed in a timely manner. In some cases, it was noted that expenditures were not being remitted in a timely manner. While in other cases, the agency appears to be taking up to two months to remit reimbursement to the City. Due to the current economic conditions and cash flow constraints, the City should ensure that all qualifying expenditures are put in for reimbursement within a timely manner and follow up on expenditures not timely reimbursed.

AGENCY FUNDS

As mentioned in the prior year, there are several general ledger accounts with balances that have not changed in several years. In addition, this fund maintains approximately 100 accounts balances. The City should evaluate the number of accounts needed to maintain the agency information including analyzing the existing balances and consolidating information where appropriate.

EMPLOYEES RETIREMENT SYSTEMS

Prior to the year ending June 30, 2003, employee post-retirement health care benefits had been historically funded through the City of Garden City Employees' Retirement System in accordance with Public Act 28 of 1966. As defined in the act, funding of post-retirement health care benefits is limited to investment income in excess of an actuarially determined limit. City Management in conjunction with the City's actuary performed the calculation for the year ending June 30, 2003 and 2004 and as a result the General Fund was responsible for and had to fund costs of approximately \$960,000 and \$1,054,000, respectively. With the limited investment income of recent years, the City should continue to analyze the impact of this cost on the General Fund and appropriately allocate costs to the applicable fund.

DEFINED BENEFIT PENSION PLAN

The City currently operates a single-employer defined benefit pension that is administered by the City of Garden City Employees' Retirement System. This plan covers substantially all employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The employee is required to contribute 5 percent and the employer is required to contribute at an actuarially determined rate. Due to low investment returns in the recent years, the amount required to be contributed by the employer (which has been zero for many years) in order to properly fund the system is projected to increase substantially beginning in the year ending June 30, 2005. As a result, the annual pension cost, per the actuary's computation, is expected to be approximately \$268,000 for the year ending June 30, 2005. The City should continue to monitor and plan for the increased costs associated with properly funding the System.

PERSONAL PROPERTY TAX

As noted in the financial statement footnotes for the current year, several years ago the State Tax Commission approved new personal property tax tables for utilities (which made drastic changes to the transmission and distribution property of utilities and resulted in a corresponding revenue loss to local governments). The City, like many communities, elected to continue to assess the transmission and distribution property of utilities using the old personal property tax tables which generated a series of lawsuits on this subject. To date, the new utility personal property tax tables implemented by the State Tax Commission have been upheld. In certain jurisdictions, refunds have been made or are in process from local governments to the utilities. We encourage the City to continue to monitor these developments as the City could be negatively impacted by the outcome.

ACH ARRANGEMENTS

Public Act 738 was passed, which allows local units of government to make and accept electronic funds transfers (ACH payments), if the local unit adopts a formal policy. While local

units of government may have already been using the ACH system for payroll tax remittances and for the direct deposit of payroll, this new law requires a policy to be adopted.

The City Council is required to adopt a policy on ACH arrangements that includes all of the following:

- Designation of an individual as the party responsible for payment approval, accounting, reporting and compliance with the ACH policy;
- A statement that this individual is required to submit documentation as follows:
 - describe the goods or services purchased,
 - the cost,
 - date of payment, and
 - the department benefiting from the purchase;
- A system of internal controls to monitor the use of ACH transactions; and
- The approval of ACH invoices before payment

OTHER ITEMS

UPCOMING REPORT CHANGES

The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ended June 30, 2010.

MUNICIPAL FINANCE ACT REVISIONS – REMINDER

The Municipal Finance Act was amended several years ago. Communities are now required to submit a filing once a year with the Michigan Department of Treasury. The old ten day "exemption from prior approval" process has been eliminated and is replaced with this qualification process. This filing will serve as a pre-approval for future debt issues. The current

Honorable Mayor and Members
of the City Council

-8-

October 8, 2004

filing is due within six months of the City's year end June 30, 2004, and is good for one year thereafter.

We would like to thank you and your staff for the courtesy and cooperation extended to us during this audit. If you have any questions regarding this letter, please feel free to contact us.

Very truly yours,

PLANTE & MORAN, PLLC



Douglas G. Bohrer



Kathryn J. Kercorian